Development Issues

U.S. Actions Affecting the Development of Developing Countries

The 1982 Annual Report of the Chairman of the Development Coordination Committee

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*Components of the International Development Cooperation Agency

UNITED STATES
INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
WASHINGTON D C 20523

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TO THE CONGRESS OF THE UNITED STATES:

This is the Annual Report on Development Coordination reporting on the events of the 1981 fiscal year, in accordance with the requirements of the Foreign Assistance Act, as amended. It represents the cooperative efforts of the thirteen member agencies of the Development Coordination Committee (DCC), under the coordination and overall responsibility of my staff.

The DCC, which I chair, was established by Congress to assure coordination of development policies and programs with related non-developmental concerns. Such coordination has both formal and informal aspects. On the more formal side, the DCC has been active in FY 1981 through several of its working groups and subcommittees, including the working group on multilateral assistance, the subcommittee on food aid, and of course the working group that collaborated in the production of this report. On the less formal side, there have been almost daily contacts between myself or members of my staff and other agencies of the U.S. Government, as frequent and constructive as ever. Together, these formal and informal coordination mechanisms have resulted, in my view, in meeting the mandate of ensuring that development goals are taken fully into account in Executive Branch decision-making processes on international finance, investment, trade, technology, and other policy areas affecting developing countries.

This is the first such report that I have the pleasure to submit to Congress and I want to underscore some of the major perspectives of this Administration - on the economic development process and on United States efforts at development cooperation.

First, the fundamental proposition that the economic progress of developing countries is in the long term political, security, and economic interest of the United States always bears repetition. "Interdependence" is not a word without significance; it is a growing reality of our times. The stability and economic progress of developing countries are of great importance to the maintenance of a stable world and well functioning international economic system. And there can be no doubt, that international economic and political stability is in the fundamental long term national interest of the United States.

Second, there is equally little doubt that economic growth and development in developing countries depend fundamentally on their own efforts and policies. Development cooperation in all its forms - from outright grants through the important stimuli provided by trade and open markets - while often of great significance to development, can never be a substitute for a developing country's own efforts.

We must constantly look for ways in which to make development cooperation in general and economic assistance in particular more effective. We mean by this much more than the obvious desirability of streamlining economic assistance programs, cutting unnecessary red tape, eliminating waste and the like. We have in mind, in addition, the far broader goal of using cooperation and economic assistance programs as far as possible as vehicles for the mobilization of the resources of the private sector and for a dialogue with developing countries aimed at increasing the effectiveness of their own efforts at development. We hope to do this through supporting economically sound policies, the building of effective institutions, the development, adaptation and dissemination of appropriate technologies and, most important, the creation of an environment within which private initiative and ingenuity can prosper.

Cordially,

M. Peter McPherson

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GLOSSARY OF ACRONYMS

ADB	Asian Development Bank
ADF	Asian Development Fund
AfDB	African Development Bank
AfDF	African Development Fund
AID	Agency for International Development
BIFAD	Board of International Food and Agricultural Development
BIS	Bank for International Settlements
CARE	Cooperative for American Relief Everywhere
CFF	Compensatory Financing Facility of the International Monetary Fund
CIEC	Conference on International Economic Cooperation
CY	Calendar Year
DAC	Development Assistance Committee of the Organization for Economic Cooperation and Development
DCC	Development Coordination Committee
DOE	Department of Energy
ECOSOC	United Nations Economic and Social Council
EEC	European Economic Community
EPA	United States Environmental Protection Agency
ESCAP	United Nations and Social Commission for Asia and the Pacific
ESF	Economic Support Fund
FAO	United Nations Food and Agricultural Organization
FOB	Free on Board
FSO	Fund for Special Operations - The Inter-American Development Bank
FY	United States Fiscal Year
GAO	General Accounting Office
GATT	General Agreement of Tariffs and Trade
GDP	Gross Domestic Product
GNP	Gross National Product
GSP	Generalized System of Preferences
G-77	"Group of 77" (Consortium of Developing Nations)
IAEA	International Atomic Energy Agency
IAF	Inter-American Foundation
IBRD	International Bank for Reconstruction and Development (World Bank)
ICA	International Commodity Agreement
IDA	International Development Association
IDB	Inter-American Development Bank
IDCA	International Development Cooperation Agency
IDS	International Development Strategy
IEA	International Energy Agency
IFAD	International Fund for Agricultural Development

IFC	International Finance Corporation
IMF	International Monetary Fund
INRA	International Natural Rubber Agreement
ISTC	Institute for Scientific and Technological Cooperation
ITC	International Trade Commission
LLDCs	Least Developed Countries
MDBs	Multilateral Development Banks
MFA	Multifiber Agreement
MFN	Most Favored Nation
MIC	Middle Income Country
MTN	Multilateral Trade Negotiations
NGO	Non-Governmental Organization
NICs	Newly Industrialized Countries
NIEO	New International Economic Order
NSC	National Security Council
OAS	Organization of American States
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries
OPIC	Overseas Private Investment Corporation
PL-480	Public Law 480
PVOs	Private Voluntay Organizations
SDRs	Special Drawing Rights
TDP	Trade and Development Program
UN	United Nations
UNCDF	United Nations Capital Development Fund
UNCTAD	United Nations Conference on Trade and Development
UNCSTD	United Nations Conference on Science and Technology for Development
UNDP	United Nations Development Program
UNEP	United Nations Energy Program
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNGA	United Nations General Assembly
UNHCR	United Nations High Commission for Refugees
UNICEF	United Nations Childrens Fund
UNIDO	United Nations Industrial Development Organization
UNITAR	United Nations Institute for Training and Research
US	United Staates
USDA	United States Department of Agriculture
WFC	World Food Conference
WFP	World Food Program
WHO	World Health Organization
WID	Women in Development

I

INTRODUCTION

I

INTRODUCTION

The International Environment for Development in 1981

The year 1981 was not marked by as much economic turbulence and volatility as that experienced in 1980. One major reason was that the price of oil -- a fundamental determinant of economic prospects for all countries in our times -- levelled out in real terms in 1981, as compared to the large increases of the previous two years. The relatively greater economic tranquility of 1981, however, was nothing more auspicious than the settling down of the international economy to the realities and hard tasks of dealing with serious short-term difficulties in a manner compatible with longer-term growth and development. (See Chapter II.A. for an outline of major developments in 1981.)

These realities confronted developed and developing countries alike, owing to the facts of ever-growing economic interdependence. One important policy corollary of international interdependence is that any one major country's failure to recreate the conditions needed for stable economic growth affects adversely the rest of the world, including the developing countries. This is a major reason why the United States has emphasized the crucial contribution that its own economic recovery will make to economic development -- especially in the form of increased demand for developing countries' exports and greater flows of private capital to those countries, quantitatively a far larger contribution than that made by economic assistance.

Aside from the effect of improved economic conditions in the United States and, it is hoped, in other industrial countries, the requirements of adjustment on many fronts entail the necessity of a hard look at the developing countries' own economic policies. Expansion of developing countries' exports, improved access to US markets, and increased private investment, or financial support for development cannot bear much fruit in the absence of sound economic policies of the developing countries themselves. These policies must promote greater efficiency of resource mobilization and allocation, and be supportive of a vital role for private market forces. Much can be accomplished by sensible and realistic policies in all countries even in the face of very limited resources. For example, in Sri Lanka, a country with a per capita income lower than $300 in 1981, resources for health have been organized so efficiently that the death rate is not very different from that in Washington, DC.

This fundamental theme and its implications for all US policies affecting developing countries -- including of course economic assistance -- is woven throughout this volume wherever appropriate, and is explored in some detail in Chapters II.E., on the importance of developing countries' policies, and III.A. on bilateral economic assistance priorities. The events of the past decade have raised policy reform in many developing countries from the status of a highly desirable event to that of an essential prerequisite for adjustment and economic progress in the years to come.

In the area of international trade, complementing the principal theme of policy reform and the importance of the private sector is the determination by the United States to keep its own markets free and open to imports from the developing countries and elsewhere -- and to try and persuade other developed countries to follow suit. It would clearly be counterproductive to urge developing countries to improve their economic policies and become better integrated into the international economic system only to nullify their efforts by protectionist restrictions on their exports in later years. Urging more efficient policies would ring hollow without providing developing countries with access to markets for their exports, and the United States is determined to assure that its policy of free and open markets will continue. (Chapter II.B. reviews events in 1981 in international trade, including US commercial policy actions affecting the developing countries.)

Concerning private international lending, Chapter II.C. concludes that the external financing needs of oil-importing developing countries will continue to be substantial over the next several years, even in the optimistic assumption of a constant real price of oil. Private international bank lending will have to continue to meet the bulk of those needs. However, several signs of financing strains emerged in 1980-81. Sharp increases in borrowing costs complicated the LDCs' external financial management problems, and the rate of growth of bank lending to oil-importing developing countries slowed down in 1981.

These aggregate trends hide a great deal of diversity in the capacity of different developing countries to obtain and service additional private bank credits. While several developing countries are in quite sound financial shape, others face a debt situation far worse than the trends indicate. The United States continues to be opposed to any measure for wholesale rescheduling of external debt; but it is willing to consider case-by-case debt relief of officially guaranteed credits under certain conditions.

From 1974 to 1981, US private direct investment in developing countries has increased significantly faster than in previous years (see Chapter II.D.). The benefits, however, have

not been uniformly distributed, with almost half of all US direct investment in the developing world concentrated in 10 countries -- all but three of which are at the higher end of the per capita income range.

It is US policy to permit the market to work freely to determine the geographic allocation of direct investment. Within this general framework, however, the potential contribution made to economic development by private investment flows is recognized. Accordingly, the United States continues to facilitate these flows, by supporting such institutions as the Overseas Private Investment Corporation (OPIC - see Chapter IV.D.), and the International Finance Corporation (IFC - see Chapter IV.A.). In addition, in 1981 the United States was supportive of renewed consideration of a possible multilateral investment insurance mechanism and was in the process of considering other possible bilateral or multilateral measures to facilitate investment flows to developing countries.

Major events in 1981 concerning the North-South dialogue are recounted in Chapter II.F. During the course of the year, the understandings under which the United States would support participating in Global Negotiations were clarified. Also, a number of important international meetings were held, culminating in October in the summit meeting at Cancun, Mexico, to which 22 heads of state participated, including President Reagan.

Emphases and Priorities of US Economic Assistance

Part III of this volume states and explains the major objectives and approaches of US assistance for development, through bilateral programs (Chapter III.A.), and through its support for multilateral institutions (Chapter III.B.). Underpinning the entirety of US economic assistance are three fundamental interrelated perspectives: the diversity of the development experience, the concentration of concessional assistance on the poorer among the developing countries, and the complementarities among different stimuli to development, whether from trade, private lending, or investment, or concessional flows. With regard to the latter, a complementarity also exists between different kinds of concessional assistance, in particular between bilateral and multilateral assistance.

The term "developing countries" masks an enormous diversity of cultures, aspirations, prospects, needs and problems. The group comprises 115 countries, ranging from the OPEC capital surplus countries to the poorest subsistence economies. The poorest tier of low income developing countries, including the "least developed countries," have very limited access to

private financial and investment resources, and a thin domestic resource base. It is to these countries that the bulk of concessional assistance is devoted.

Just as the diversity of development problems and issues calls for a variety of supportive policies, from concessional aid for the poorest countries to a vigorous international trading system for the newly-industrialized ones, so it also engenders a complementarity among different economic assistance programs and institutions -- multilateral as well as bilateral. Assistance, even to the poorest countries, needs to be applied with an eye towards developing self-sustaining economic growth and development. The purpose of assistance is in large measure eventually to place countries in a position to fully benefit from participation in the international economic system. The mix and balance between multilateral and bilateral aid varies as appropriate to the circumstances. The general principle on which to determine such balance, however, is always the same -- namely, the comparative advantage of the different institutions involved, stemming from the specific characteristics of their structure and organization and/or from their unique experience in dealing with certain types of problems, activities, or countries over the years.

A second related principle of applicability to all economic assistance, regardless of source, is the necessity to provide it in the most effective possible ways. This was especially true in 1981, and will continue to be so in the foreseeable future, owing to the budgetary limits which will make it difficult for the United States to continue the same real level of foreign assistance as in years past. Thus, assistance should be used in part to bolster the evolution toward more effective policies in the developing countries themselves and to serve as a catalyst for private sector activities. Also, as discussed in Chapter III.A., US assistance can be most productive when it provides a vehicle for the transfer and adaptation of US organizational skills, proven institutional structures, and appropriate technology, which jointly comprise the US comparative advantage among aid donors.

The three major sectoral priorities for US bilateral economic assistance remain food and agriculture, energy, and human resources (including population). In the area of food and agriculture, nutrition and food security are the principal goals -- still considerably far off into the future. Outstanding successes have been achieved in recent years, however, particularly in improving the productivity of small farmers. In the area of energy, although no increase in the real price of oil was experienced in 1981, the earlier increases have required and will continue to require difficult adjustments. Most developing countries face also the specific challenge of finding alternatives to their heavy dependence upon traditional fuels such as fuelwood and wastes. The United

States seeks to encourage developing countries to expand production of their indigenous energy resources, renewable as well as conventional - with the principal impetus being provided by private sector investment. External assistance should be channeled to catalyze private sector investment through various mechanisms. In particular, while the United States is convinced of the high priority of energy investment in the developing countries and has suggested a number of improvements in the World Bank energy lending program, it decided, after careful consideration, that it could not support or participate in the proposed World Bank energy affiliate or expanded energy lending to the World Bank. In the area of human resources, including health, nutrition, and education, as well as population, US assistance continued to emphasize in 1981 those kinds of activities that benefit the largest possible cross-section of the population, rather than the provision of complex services to a small minority -- usually located in the urban centers.

The problems of rapid population growth, inadequate health and nutrition, illiteracy and lack of skills are still very serious, and will continue to demand high priority by the international community as well as the developing countries themselves. In general, as concerns health and education, it is highly desirable to move away from the provision of complex, large-scale, expensive facilities that benefit only the few, and towards primary health care and outreach programs which can raise social development levels throughout a much larger portion of a country owing to their far lower cost per person.

US priorities for assistance provided through multilateral institutions, such as the development banks and UN agencies, are consistent with the emphases and sectoral interests that the bilateral program stresses. In 1981, the United States undertook a comprehensive assessment of the policies and operations of the multilateral development banks (MDBs), to establish a policy framework for US participation in the MDBs in the 1980s. This assessment concluded among other things that the MDBs have made an important and cost-effective contribution to LDC economic growth development and stability. It also concluded that MDB effectiveness in promoting LDC development in the 1980s will depend to a large extent on their success in encouraging borrowing countries to pursue sound economic policies. MDB efforts to catalyze domestic (particularly private) resources and encourage reliance on individual incentives in a free market environment will also be very important.

The United States will continue to work constructively with other MDB members to improve the operational effectiveness of the banks and to insure that MDB resources are utilized to promote development in the most effective fashion. In this context, the United States will encourage:

-- more MDB emphasis on stimulating private flows and promoting private sector development in the developing countries;

-- concentration of concessional resources on the poorest countries and implementation of more consistent graduation policies in the capital windows;

-- more selectivity in MDB lending, geared to appropriate economic and financial policies adopted by borrowers.

The MDB assessment and specific recommendations are summarized in Section III.B.1.

The fundamental US interest in international stability and economic development is well served by channeling appropriate resources not only to the MDBs, but to agencies of the UN system as well. US support enables development-active UN institutions to exercise an influential role within developing countries, and helps to combat instability and to foster peaceful cooperation. The United States and other traditional donors are also encouraging these institutions to define their development priorities more sharply and to continually re-examine their programs and activities, with a view to eliminating those which no longer deserve priority or which are unrealistically ambitious.

Official US Support for Development

The previous Part states and explains US priorities, approaches, and objectives concerning its bilateral assistance and multilateral contribution. This last Part of the volume is devoted to describing the operation of the programs themselves. It includes chapters on the programs of the MDBs and of UN agencies in 1981, and a detailed treatment of the US bilateral economic assistance programs, from those of AID to the Economic Support Fund, PL 480, the Overseas Private Investment Corporation, the Trade and Development Program, the Peace Corps, and the Inter-American Foundation. All chapters in this Part are organized around a common structure, beginning with a description of the bases and goals of the program, proceeding to a report of US contributions and an account of major developments in 1981, and concluding with a brief look at prospects for the near term.

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II

DEVELOPING COUNTRIES IN THE WORLD ECONOMY

II

DEVELOPING COUNTRIES IN THE WORLD ECONOMY

Chapter II.A.

DEVELOPMENT IN 1981

The aftershocks of the 1979-80 oil price increases continued to play out as the world economic problems showed little signs of abating. While the high cost of oil imports continued to constrain developing countries' growth, there were a number of other factors that came into play in 1981. Recession in several industrial countries, inflation, high and volatile interest rates, slower growth of world trade, and declining prices of primary products led to difficulties in 1981 for both developed and developing countries.

Economic recovery is expected to be generally slow and at different rates in different industrialized countries, partly owing to the need for reducing the rate of inflation. In 1981, growth in the aggregate Gross Domestic Product (GDP) of OECD countries was barely higher than one percent, not even as high as the 1.3 percent registered in the previous year, and down substantially from the 4 percent annual average for 1976-79. In earlier recessions industrial countries launched expansionary monetary and fiscal economic programs. Now, however, the danger of accelerated inflation is seen as a major limit on economic expansion and stimuli in industrial countries, and some governments are reluctant to shift toward more expansionary economic measures. Policies that stimulate aggregate demand in inappropriate or untimely ways run the risk of undoing the progress made in reducing inflation. Most industrial countries therefore felt in 1981 that they had to hold to a course of tight monetary and fiscal policies despite slow economic growth and high unemployment. While this course might lay the foundation for long term sustained economic growth, in the short run economic recovery in the industrialized countries will be gradual, and their demand for developing countries' exports correspondingly slack.

The next several years are going to be especially difficult for developing countries, and particularly the poorest among them. While investment depends mainly on domestic savings, the earnings from merchandise and services exports and the inflows of private and public capital provide important additional resources to boost productive capacity. However, the slack industrial countries' demand for developing countries' exports

will dampen their foreign exchange earnings; tighter international capital markets with high interest rates have increased considerably the cost of borrowing, and in many cases reduced developing countries' access to private capital markets and thus the availability of funds for investment; and the growth in official concessional assistance from developed countries shows unmistakable signs of leveling off, and in some cases of declining in real terms. With the anticipated scanty growth in external resources, therefore, developing countries more than ever will need to depend on their own efforts at domestic resource mobilization and on sound economic policies leading to greater efficiency and growth.

1981 was the third year in a row of lower growth in developing countries, paralleling the economic record of the developed economies and giving further indication of the reality of global economic interdependence. Oil-importing developing countries had a GDP growth rate in 1981 of around 4 percent, compared to 4.4 percent in 1980 and a 5.2 percent annual average for 1973-79. Taking into account the growth of population, average per capita income in 1981 increased by less than 2 percent.

Even this modest improvement was not evenly shared by developing countries, and the average growth figures for 1981 mask major regional differences. Regional developments were often unfavorable. For example, in South Asia the good harvests of 1980 were not replicated in 1981; India edged back into a grain import position (after the success of food self-sufficiency policies of previous years); South Asian GDP growth rates declined; in Sub-Saharan Africa GDP growth barely matched the growth of population, continuing a five-year trend of a virtual standstill in per capita income. By contrast, the middle income developing countries and the newly industrializing countries posted a tolerable economic growth record in 1981.

In addition to the unfavorable global trends mentioned earlier, a negative influence on developing countries' growth was the need for developing-country governments themselves to apply more restrained economic policies -- to control their own inflation. And finally, to some extent the growth slowdown reflected the continued implementation by developing countries of structural adjustment measures needed to re-orient domestic resources more into export production, curb import demand, and generally to bring their balance of payments position eventually into line with the new economic conditions growing out of the oil price increases of 1979-80.

The current account position of oil-importing developing countries continued to deteriorate in 1981, in both nominal and real terms. Their 1981 deficit is estimated at $97 billion,

compared to $82 billion in 1980 and only $38 billion in 1978. Key factors causing the aggregate deficit to rise were the slow growth in the volume of exports, the deterioration in the purchasing power of those exports (the terms of trade), and an upsurge of interest payments on developing countries' external debt. The first two of these factors reduced the total earnings of foreign exchange, while the third diverted a significant portion of purchasing power away from imported goods into debt service payments. The only bright spot was the approximately constant real price of oil -- up only 11 percent in nominal terms compared to 62 percent in 1980 and 48 percent in 1979.

Non-oil developing countries' export volume increased by an estimated 7 percent compared to the 9 percent average annual growth of 1978-80. (As already noted, the principal reason for the slow increase was recession in the industrial world.) And this modest increase in the volume of exports was offset by a decline in the relative price of those exports -- the terms of trade (export price index deflated by the index of import prices).

The terms-of-trade decline affected all developing countries but again was most severe for the low income countries. Oil-importing developing countries as a group (including the middle income exporters of manufactured goods) had experienced an earlier rise in the purchasing power of their exports of well over 10 percent in the 1976-77 period of buoyant commodity prices. That improvement slowed to 5 percent per year in 1978-79, to one percent in 1980, and turned negative in 1981. For the low income developing countries the purchasing power of export earnings continued to fall in 1981, after having declined by about 6 percent in 1980, on top of a cumulative decline of almost 6 percent during the preceeding two years. Thus, over the last four years, the purchasing power of the exports of low income developing countries has fallen by about one sixth. This occurred mainly as a result of these countries' heavy dependence upon exports of primary commodities, which suffered the greatest price erosion in recent years.

These unfavorable trends on the current account side were not offset in 1981 by an increase in capital inflows. The difficulties caused by the higher cost of international private borrowing have already been mentioned. In addition, the growth in official development assistance came to a halt in 1981. Official development assistance, which had increased in real terms by about 7 to 8 percent per year from 1970 to 1974, and by about 2.8 percent per year from 1975 to 1980, showed almost no real growth in 1981.

The decline in export volume growth, the deteriorating

terms of trade, and the leveling off of development assistance resulted in a marked reduction in the real growth of developing countries' imports. For oil-importing developing countries import volume was up only by about 4 percent from 1980 to 1981. This compares to an increase of 8.5 percent in 1979, roughly equal to the average annual increase in imports during the late 1960s and early 1970s -- before the oil price increases. Once again, the low income developing countries did much worse than other developing countries, with import volume growth of only 2 percent in 1980 and 1981.

While many middle income developing countries continued to borrow heavily to avoid a curtailment of imports, real import growth still declined, and for many low income countries real import levels actually declined.

This flattening of import growth has reduced the total availability of developmental resources. Developing countries with limited access to external resources have consequently found it difficult to maintain their development programs. In principle, one option is to shift domestic resources away from consumption and into investment. For many developing countries, however, particularly the low income countries with already minimal living standards, such a shift is hardly feasible on a significant scale. For middle income developing countries, external borrowing, while much more costly, was still possible. For many low income countries, instead, domestic investment fell, and their future growth prospects correspondingly were impaired.

The severity of these problems is not expected to abate substantially in the coming years. As in 1981, all developing countries will continue to face unpleasant adjustment choices. The low income developing countries in particular will not be able to count -- with a few exceptions -- on increased export earnings or more rapid growth in aid resources. Investment resources, domestic or from abroad, will be equally scarce. Priorities will have to be defined much more carefully than in the past, and alternatives scrutinized closely for their relative efficiency, in order that what resources will become available be used as effectively as possible. Difficult, but essential, policy reforms will have to be undertaken by most developing countries, on the microeconomic as well as the aggregate fronts: improve the functioning of markets and allow private market forces to operate more freely; limit public spending and intervention to that demonstrably likely to yield

significant gains in efficiency or in economic and social development; economize on the use of energy; boost productivity; restrain inflation; and generally realign domestic prices with relative economic scarcities in the domestic as well as the foreign trade sector.

Chapter II.B.

INTERNATIONAL TRADE

Recent Trade Performance of Developing Countries

During 1980, the developing countries led the world in the nominal growth of both exports and imports. Imports of the non-OPEC developing countries increased by 32.5 percent, and their exports by 32.4 percent. Imports of the members of OPEC expanded by 30.0 percent in value, and their exports by 41.3 percent. This rapid growth of LDC trade contrasted sharply with the sluggish performance of the industrialized countries, whose exports grew by 18.4 percent and whose imports increased by only 8.1 percent. However, because LDC trade expanded from a smaller base, the absolute growth of industrialized countries' exports was greater than that for developing countries' exports. (These developments are shown in Table 1.) While these nominal growth figures generally were higher than in previous years, the record in real terms was disappointing. World trade volume in 1980 and 1981 grew by a mere 1.5 percent per annum, compared to an average annual growth of approximately 7 percent since the recession of 1975. The major factor in this poor global record was the sharp decline in the volume of oil shipments from the oil exporting countries following the 1979 oil price increases. The industrialized countries and the non-oil developing countries achieved export volume growth in 1980 of 4.5 percent and 8 percent, respectively, which were below their growth rates for 1978-79. It is estimated that in 1981 real growth in exports would be even lower, especially for the developed countries.

The doubling of oil prices between 1978 and 1980 more than compensated the oil exporting countries for the decline in export volume. Accordingly, their combined merchandise trade surplus grew dramatically, exceeding $160 billion in 1980. At the same time, the combined current account balance of the industrialized countries improved, partly as a result of slow economic growth. The oil-importing developing countries, on the other hand, suffered a substantial deterioration in their terms of trade as a result of both the higher oil prices and weak prices for non-oil primary commodities in the second half of 1980 and in 1981. As a result, the trade and current account deficits of the non-oil developing countries more than doubled between 1978 and 1980, and the deterioration in their payments position was expected to continue in 1981.

The trend toward slower real export growth and deteriorating terms of trade in the non-oil developing world is not likely to be reversed until real economic growth is

Table 1

Trade Between Developed and Developing Countries

	EXPORTS (FOB $ Billion)		AVERAGE ANNUAL GROWTH RATE (Percent)	
	1970	1980	1970-80	1979-80
World Exports 1/	282.2	1855.7	20.7	23.5
To Developed Countries 2/	222.1	1216.6	18.5	8.1
To OPEC	9.3	127.7	29.9	30.0
To Non-OPEC LDCs	44.6	323.8	21.9	32.5
Developed Country				
Exports	226.9	1297.5	19.0	18.4
To Developed Countries	174.9	915.8	18.0	15.6
To OPEC	7.8	104.5	29.6	32.4
To Non-OPEC LDCs	32.9	194.0	19.4	26.9
OPEC Exports	17.7	290.7	32.3	41.4
To Developed Countries	14.0	224.9	32.0	41.4
To OPEC	.1	3.6	43.1	80.0
To Non-OPEC LDCs	3.2	55.7	33.1	32.0
Non-OPEC LDC				
Exports	36.5	255.2	21.5	32.4
To Developed Countries	26.2	157.4	19.6	20.2
To OPEC	.9	17.6	34.6	33.3
To Non-OPEC LDCs	6.5	61.5	25.2	56.1

Source: IMF, Direction of Trade

1/ World export totals exclude centrally planned economies.

2/ Developed Countries are OECD members, Gibraltar, Ireland, Israel, Malta, South Africa and Yugoslavia.

accelerated in the industrialized countries. Despite a significant increase in trade among the developing countries, the non-OPEC LDCs still rely on the industrialized nations to buy more than three-fifths of their exports. High inflation in many developed countries has required tight monetary policies and measures to restrain aggregate demand, which have compressed import demand. The prospect is for continuing inflation-reducing policies and slow or zero economic growth in many developed countries well into 1982. An extended period of no growth or a lingering recession in the major developed countries will force the developing countries to reduce their own imports substantially. Since more than two-thirds of developing countries' imports come from the developed world, the reality of interdependence means that their attempts to adjust to slow growth in the industrialized world will make it even more difficult for the developed countries themselves to regain economic vitality. In the meantime, of course, the developing countries will have fewer resources to allocate to development. If the international trading system is to be an engine of growth for the entire world economy in the early 1980s, it is essential that the developed countries achieve a sustained period of robust growth with low inflation.

There continue to be marked differences in trade performance among the developing countries. Especially in the manufactured goods sector, trade expansion has been concentrated among less than a dozen countries. Export volume of the newly industrializing countries, for example, grew at an average annual rate of nearly 12 percent between 1976 and 1980, while the comparable statistic for the low income LDCs was approximately 4 percent. Such sharp differences in the face of equal access to world markets suggest that the circumstances and policies of the individual developing country are the principal determinants of trade success. More specifically, outward looking trade policies have had an extremely beneficial effect upon the trade performance and economic development of countries adopting such policies. Outward looking policies include the elimination of disincentives to export (e.g., overvalued exchange rates), free trade in industrial inputs, realistic relative prices for capital and labor, control of inflation, encouragement of investment, and reduced reliance on centralized economic decisionmaking. The superiority of these outward looking policies to import substitution policies has been particularly evident in the LDCs' different experiences in adjusting to the oil price shocks of the 1970s. Those countries that have pursued outward looking policies generally have been able to avoid drastic declines in economic growth or in the purchasing power of exports. Critical ingredients in the success of the export oriented development policies during the past decade have been the maintenance of relatively open markets in the industrialized countries and the pursuit of

additional multilateral trade liberalization under the aegis of the General Agreement on Tariffs and Trade (GATT). Chapter II.E. examines the importance of sound economic policies in the developing countries.

Developing Countries Trade with the United States

The openness and size of the US market continued to provide the developing countries with an enormous source of foreign exchange in 1980. As Table 2 shows, US imports from the non-OPEC developing countries amounted to $63.4 billion, nearly 23 percent of these countries' exports and twice as much as total net Official Development Assistance from all sources. In particular, the United States accounted for roughly 22 percent of these countries' exports of manufactures.

On the other hand, the non-OPEC developing countries absorb a substantial proportion of US exports, nearly 30 percent in 1980. This exceeded the value of US exports to Canada and Japan combined. For the first time in five years, the United States recorded a trade surplus with the non-OPEC developing countries; the surplus is expected to increase to more than $5 billion in 1981. Thus, trade with the developing countries has been helping to cushion the economic slowdown in the United States. Taking a longer perspective than the current phase of the business cycle, however, a balance in US-LDC trade is apparent. In 1970-80, cumulative US exports to the non-OPEC developing countries amounted to $309.5 billion, compared to imports of $310.5 billion.

US Trade Actions Affecting Developing Countries

Despite growing pressure for protection in the midst of slow economic growth, in 1981 the United States reduced substantially the incidence of escape clause actions affecting LDC products. Most noteworthy in this regard was the President's decision not to renew the Orderly Marketing Agreements on non-rubber footwear from Taiwan and Korea. In addition, previous escape clause actions on citizens band transceivers expired in 1981 and were not renewed, and the temporary tariff increase on mushrooms was reduced as scheduled in November 1981. Orderly Marketing Agreements remained in effect for color television sets from Korea and Taiwan, and temporary tariff increases remained on porcelain-on-steel cookware, which is supplied primarily by Taiwan, Mexico and developed countries. Additional fees above a breakpoint price were extended in November 1981 for another year on high carbon ferrochromium; the major developing countries affected by this action are Brazil and Zimbabwe.

Table 2

US Trade Trends With Developing Countries 1/
($ Billion)

	US Exports to Non-OPEC LDCs	US Imports From Non-OPEC LDCs	Balance of Trade With Non-OPEC LDCs	US Exports to OPEC	US Imports from OPEC	Balance of Trade With OPEC
1970	10.9	8.8	2.1	2.1	1.7	.4
1971	11.1	9.5	1.6	2.3	2.1	.2
1972	11.8	12.0	-.2	2.8	2.7	.1
1973	17.4	15.7	1.7	3.6	4.6	-1.0
1974	26.0	23.8	2.2	6.7	15.6	-8.9
1975	28.5	22.2	6.3	10.8	17.1	-6.3
1976	26.7	28.0	-1.3	11.6	27.4	-15.8
1977	28.1	34.9	-6.8	12.9	35.8	-22.9
1978	35.4	41.1	-5.7	14.8	33.3	-18.5
1979	48.1	51.1	-3.0	14.5	45.0	-30.5
1980	65.5	63.4	2.7	17.4	55.6	-38.2
1981 est.	73.8	68.0	5.8	21.2	56.2	-35.0

Sources: International Economic Report of the President (1977); US Department of Commerce, Survey of Current Business

1/ Exports and imports are free alongside ship transaction values, except prior to 1974 when imports are customs values.

Countervailing duties were imposed for the first time in 1981 on leather wearing apparel from Mexico, leather shoes and uppers from India, and bicycle tires and tubes from Korea. Countervailing duties were revoked on handbags from Korea, and were reduced on cotton yarn, castor oil products, and certain scissors and shears from Brazil. The investigations of alleged subsidies on leather wearing apparel from Uruguay and Argentina were suspended when those countries imposed export taxes to counteract the subsidies.

Three antidumping investigations of interest to developing countries ended with negative determinations in 1981: iron metal castings from India, menthol from the People's Republic of China and fresh cut roses from Colombia.

Textiles and apparel are items of special importance in the trade between developed and developing countries because they are among the first manufactured goods to be produced by industrializing developing countries, and because changes in the structure of comparative advantage in these industries pose serious adjustment difficulties for developed countries. The United States is a signatory of the Multifiber Arrangement (MFA), the international arrangement governing trade in textiles and apparel. Its objectives are to ensure the orderly development of developing countries' exports of textiles and apparel, while minimizing disruption of the importing country markets. Under the auspices of the MFA, the United States has bilateral agreements containing specific restraint levels with 24 textile-exporting countries. An extension of the MFA to July 1986 was completed on December 22, 1981. Although the terms were more restrictive than might have been hoped for by developing countries, the extension does provide for an orderly expansion of textile trade, especially with respect to the smaller producers among developing countries.

Generalized System of Preferences

Through its Generalized System of Preferences (GSP) program, the United States provides duty-free treatment for imports of 2,850 products from 140 beneficiary developing countries. Duty-free US imports from the developing countries under GSP amounted to $7.3 billion in 1980, more than 15 percent over the previous year, and 15.3 percent of the value of US non-petroleum imports from beneficiary developing countries. The major beneficiaries continue to be Taiwan, Korea, Hong Kong, Mexico and Brazil, which together accounted for 60 percent of the value of GSP duty-free imports in 1980. This concentration of benefits is understandable in light of the product composition of the GSP program, the varying abilities of developing countries to export, and the trade policies of various developing countries. Nevertheless, the figure is down substantially from 1979, when the top five

countries accounted for 70 percent of GSP duty-free imports.

The GSP competitive-need formula provides for "graduation" by removing GSP eligibility from a beneficiary country for those products in which the beneficiary's shipments during the previous calendar year exceeded either 50 percent of total US imports of that item or a given dollar amount, which in 1980 was $45.8 million. In 1980, $5.6 billion in GSP-eligible exports from beneficiary countries were excluded from duty-free treatment because of competitive-need criteria. The pattern of exclusions matched the pattern of benefits, i.e., the top five beneficiaries accounted for 60 percent of the value of competitive need exclusions in 1980.

Several new policies regarding GSP were announced in the Report to the Congress on the First Five Years' Operation of the US GSP, which was submitted by the President on April 17, 1980. The most important of these new policies was the introduction of a more flexible product eligibility policy to complement the existing competitive need criteria in the GSP. The President's authority will be used to "withdraw, suspend, or limit duty-free treatment" in products in which beneficiaries are deemed to be already competitive in world markets. More specifically, eligibility will be extended to, or removed from, products on an individual country basis to the extent that doing so would encourage a wider distribution of benefits. Factors to be taken into account in graduation decisions would include the development level of individual beneficiaries, their competitive position in the product in question and the overall economic interests of the United States.

The graduation of individual countries under the President's discretionary authority was initiated during the 1980 product review. On March 31, 1981, graduation actions were implemented involving 29 products (totaling $586 million) and five advanced developing countries (Taiwan, Hong Kong, Korea, Brazil, and Mexico). At the same time, 48 new items accounting for approximately $509 million in imports from beneficiary developing countries became eligible for GSP treatment. The additions included diodes and rectifiers, transistors, rattan furniture, jute cordage, clove cigarettes, and certified hand-loomed and folklore wall hangings of wool. A special effort was made to extend GSP eligibility to products of particular interest to the poorer developing countries.

The Administration announced in October 1981 that it would seek an extension of the statutory authority for the US GSP program, which is scheduled to terminate in January 1985. Comments on the program's operation and administration will be solicited from interested parties through public hearings to be held in 1982.

International Commodity Agreements

For many of the developing countries, the level of foreign exchange earnings in any given year depends primarily upon the returns of a single commodity. Sharp fluctuations in the prices of primary commodities are one source of fluctuations in foreign exchange earnings and can be an impediment to development planning and implementation in such countries. Accordingly, in 1976 the United Nations Conference on Trade and Development (UNCTAD) launched the Integrated Program for Commodities to consider improvements in international trade in primary commodities. The major elements of the program have been international commodity agreements and the Common Fund.

The International Natural Rubber Agreement (INRA) entered into force provisionally on October 23, 1980. It relies on a 550,000 ton buffer stock to stabilize natural rubber prices without disrupting long-term market trends and seeks to ensure expanded future supplies of natural rubber at reasonable prices. Among the developing countries most affected by the Natural Rubber Agreement are the producing countries of Malaysia, Indonesia, Thailand, and Sri Lanka.

Several significant actions regarding this INRA were taken by the United States in the past year. Congressional approval of an $88 million appropriation to cover potential US financial obligations under the Agreement was secured and, in May 1981, the United States definitively joined the INRA. (Previously, the United States had been a provisional member.) The United States is actively participating in the development of rules and procedures for the new agreement.

In early 1981, the United States implemented legislation enabling it to meet its obligations under the International Coffee Agreement (ICA). This development followed the agreement of the ICA members in October 1980 to put the economic provisions of the agreement into effect. In September 1981, the United States agreed, along with other ICA members, to a one-year extension of the current Agreement (due to expire September 30, 1982) to allow more time for consideration of possible improvements in the Agreement. In November 1981 the members of the International Sugar Agreement agreed to extend the Agreement to the end of 1984. The Administration will seek a renewal of implementing legislation in 1982.

Agreement was reached in June 1981 on the Sixth International Tin Agreement. After intensive review of this Agreement, however, the United States announced in October that it would not participate, citing its well-known objections to

certain aspects of the export control and buffer stocking provisions, as well as doubts about the financial adequacy of the Agreement. The Sixth Agreement is expected to come into force in July 1982.

A new International Cocoa Agreement entered into force provisionally in August 1981, and buffer stock operations began in September. Because of serious misgivings about the economic and financial viability of the Agreement, the United States previously had declined to join it.

Common Fund

Agreement on the Common Fund was reached in June 1980, and the United States signed the Articles of Agreement in November of that year. Further steps toward ratification and appropriations will be taken, provided that a sufficient number of suitably structured international commodity agreements exist that are prepared to associate with the Fund.

Over the past year, a "Preparatory Commission", in which the United States has been an active participant, has met periodically to draft financial and administrative regulations for the Fund. To date, only twelve countries have ratified the Fund; ninety countries holding two-thirds of the Fund's capital shares are needed for the Agreement to enter into force.

Chapter II.C.

INTERNATIONAL LENDING

As the previous two chapters have discussed, it is likely that most non-oil developing countries will experience continuing deficits in their trade accounts with the rest of the world in the years to come. This may or may not prove to cause lasting difficulties, depending to a large extent on the use to which a country puts the real resources which it obtains from abroad by means of running a current account deficit. For example, if a country's sound economic policies lead to an eventual build-up of productivity and productive capacity, the ensuing expansion on an economical basis of exports and import-competing domestic production in principle permits the country to service its accumulated debt at the same time as its current account position improves.

A current account deficit needs to be financed whether or not it is put to good use for the long term. By definition, a deficit on current account implies an equal surplus in the remainder of the balance of payments. In general, aside from official economic assistance or from running down of national reserves, this surplus may be generated through borrowing abroad, and/or through an infusion of foreign investment funds. This chapter describes and analyzes recent trends in international lending to developing countries, and the next chapter deals with private direct investment.

The size of current account deficits of non-oil developing countries in recent years has been unusually large by historical standards. The upsurge in the aggregate current account deficit of this large group of countries, from $38 billion in 1978 to $82 billion in 1980 and an estimated $98 billion in 1981 (see Table 1), has stemmed mainly from external developments, including the escalation of world oil prices in 1979-1980, the related slowdown in economic activity in the industrial countries and its impact on non-oil LDC exports and terms of trade, and the steep rise in the interest cost of borrowings by developing countries in world financial markets. These exceptionally large deficits, equivalent to 4.9 percent of GDP in 1980 and 1981, were financed in some part by increases in non-debt-creating financial inflows (official grants, direct private investment and SDR allocations); in the main, however, they were financed through substantial increases in international borrowing with attendant increases in external indebtedness. (Current-account and other balance-of-payments estimates here and elsewhere in this chapter are from the IMF).

Recently, a great deal of attention has been centered on the implications of external financing needs and on the

TABLE 1

Non-Oil Developing Countries' Current Account Financing, 1978-1981 1/
(In billions US dollars)

	1978	1979	1980	1981
Current account deficit	38	58	82	98
Change in Reserves	15	12	2	1
Total	53	70	84	99
Financed by:				
Nondebt-creating flows (net)	15	22	21	24
Transfers	8	10	11	12
Direct investment flow, net	6	8	8	10
Other	1	3	2	1
Net External Borrowing 2/	37	48	64	75
Long-term capital	35	45	48	56
From official sources	14	14	21	24
From private sources	27	33	27	31
From financial institutions	23	32	24	26
From other lenders	40	1	3	5
Residual flows 3/	-6	-3	0	2
Use of reserve related facilities 4/	0	0	3	7
Other short-term borrowing and errors and omissions	3	3	12	11

1/ Excludes data for the People's Republic of China prior to 1977.

2/ That is, financing through changes in net debt position. Includes any net use of nonreserves claims on non-residents, errors, and omissions in reported balance of payments statements for individual countries, and minor deficiencies in coverage.

3/ These residual flows comprise two elements: (1) net change in long-term external assets of non-oil developing countries and (2) residuals and discrepancies that arise from the mismatching of creditor-source data taken from debt records, with capital flow data taken from national balance of payments records.

4/ Comprises use of Fund credit and short-term borrowing by monetary authorities from other monetary authorities.

Source: IMF World Economic Outlook 1981, Occasional Paper 4, June 1981.

debt-servicing capacity of the non-oil LDCs. In the 1960s and the early 1970s, non-debt creating external flows financed about 50 percent of the deficit of non-oil developing countries. The next largest component in financing these countries' deficit was highly concessional official loans. However, this has not been the case since 1974; hence, large external imbalances and external debt problems now go hand in hand. Generally, deficits at the 1980 and 1981 levels (in real terms) are not likely to be sustainable over a number of years, in the sense that financing would not be available in the required volumes, and/or that if the required amounts of financing were available, it would tend to lead to future debt servicing difficulties, unless it were available on more concessional terms. If there is no further increase in the real price of oil, the aggregate deficit of non-oil LDCs should level off in 1982 and may even decline somewhat in nominal terms (and certainly in real terms), because adjustment efforts carried out in 1980 by many of the major non-oil LDCs will begin to have an impact on the level of their current account deficits. However, large external imbalances will very probably persist for many developing countries, and their external financing needs will therefore continue to be substantial over the next several years, even if additional policy reforms are undertaken by these countries. Further, it would be unwise to rule out the possibility of significant increases in the real price of oil after 1982.

Recent Financing Trends

In 1978 and 1979, even though the deficit of non-oil developing countries was growing rapidly, it was financed rather easily. In fact, external financing was so readily available that these countries were able to accumulate foreign exchange reserves at an unprecedented rate. With loan demand relatively weak in the developed countries, net private bank flows to the non-oil LDCs expanded at an exceptional pace -- over 30 percent per annum -- and the average borrowing terms were quite favorable, as measured by longer average maturities and narrowing average spreads over the London Interbank Offer Rate (LIBOR is the interest rate offered on Eurodollar bank deposits; borrowers pay LIBOR plus spread.) For the most creditworthy developing countries, commercial bank financing was available on terms comparable to those applied to industrial country borrowers. A great deal of refinancing took place in 1978 in particular, and also in 1979, to take advantage of the easier borrowing terms.

Beginning in 1980 and continuing into 1981, the financing situation deteriorated dramatically. A number of countries that were previously creditworthy began to experience difficulties. An unusually large number of countries resorted

to extraordinary means of financing their deficits, such as accumulation of external payments arrears, and/or debt rescheduling agreements with foreign creditors. These financing strains were particularly in evidence in sub-Sahara Africa. The non-oil developing countries as a group have barely registered any increase in foreign exchange reserves for the last two years. Foreign borrowing by the monetary authorities of a number of countries, including their increased use of Fund credit, helped to avert an actual decline in reserves. Stable reserve levels represent a significant reduction of reserves in real terms, and especially in relation to imports. The relative importance of non-debt creating flows in total net external financing flows slipped from 30 percent in 1978-79 to only 24 percent in 1980-81 because of a decline in direct investment capital. And in 1980, there was a general hardening in the terms of borrowing in international capital markets -- higher interest rate spreads and shorter maturities, particularly for oil importing countries that had already accumulated a heavy debt burden, such as Brazil and Argentina.

There were other important signs of financing strains. Short-term credits of various kinds comprised an unusually large proportion of total non-oil developing countries' borrowing in 1980; indeed, long-term borrowing accounted for less than twenty percent of the overall increase in net external borrowing by the non-oil developing countries. Within the long-term component of external borrowing, there was a sharp shift away from long-term borrowing from commercial banks and other private creditors. Long-term financial flows from foreign governments and multilateral institutions rose dramatically in 1980, and again in 1981, and were the one bright spot in the financing picture. By contrast, long-term borrowing from commercial banks actually declined considerably in 1980 for the first time since before the first oil price shock in 1973-74, and in 1981, net long-term bank flows were still far below the 1979 level. This reflected tighter monetary conditions in the lending countries and the reluctance of banks to expand their long-term commitments to a number of countries which have been important private market borrowers, because of the banks' uncertainty regarding the longer-term economic outlook of these countries. It also reflected the reluctance of the countries themselves to incur additional long-term debt at the borrowing costs that prevailed during 1980.

This type of financing strategy, based on short-term borrowing and in some cases, reserve drawdowns, is by definition only stop-gap in nature. In 1981, many countries began to consolidate short-term bank debt into longer maturities. In 1982, many developing countries will want to reconstitute reserves and most will hesitate to deplete their reserves much further. This means that a substantial amount

of gross borrowing in the near-term future may go to restructure assets and liabilities rather than to add to net resource availability.

In some respects, the present difficult situation parallels the situation that existed in 1975 following the first oil price shock. Then the combined current account deficit of the non-oil developing countries was even larger in relation to their GDP than it is now. However, the middle income developing countries were generally able to absorb the effects of terms of trade deterioration, while minimizing the impact on longer-term economic growth. This was made possible through increased external financing, particularly increased borrowing through private capital markets.

The low-income developing countries had very limited access to borrowing from capital markets to meet their needs. In some instances they virtually depleted their foreign exchange reserves, accumulated large payments arrears and had to reduce sharply the volume of imports. During this period, the real GDP growth per capita for this group was negligible, and in many cases actually negative. Increased borrowing by non-oil developing countries would allow them to buy time until economic recovery in the industrial countries and gradual economic adjustment, in the form of export expansion and carefully constructed expenditure reduction and expenditure switching measures, would permit them to reduce their deficits to more sustainable levels.

Adjustment after the Second Oil Price Shock

Once again it is incumbent upon the developing countries to adjust to adverse developments in their external payments position. However, adjustment in the 1980s may prove more difficult than in the period following the first oil shock. First, while the current account surplus of the oil exporters is coming down sharply, it is unlikely to decline as rapidly, or the growth rates of the industrial countries to recover as quickly, as in the mid-1970s. Thus, the correction of the payments imbalances is not likely to be achieved within a short period, and substantial amounts of external financing will be needed to permit the adjustment process to run its course without unduly impairing the growth prospects of developing countries.

Also, the debt situation is now far more worrisome than after the first oil crisis. This is because of the rapid build-up in external debt service obligations incurred as a result of heavy external borrowing in 1974-79, mostly from international banks. Persistence of high levels of borrowing

from international banks by some developing countries has shifted markedly the composition of their external debt and has created a more complex task of debt management than they faced a decade ago. Compared with debt owed to foreign official lenders, debt to banks carries shorter maturities and higher (and more variable) interest costs. Therefore, a given percentage increase in outstanding indebtedness implies a faster percentage growth in debt-service obligations under present conditions than it did earlier in the decade when the composition of outstanding debt was very different. Thus, the major borrowers from banks have had to pay increasing attention to external debt-service obligations when formulating objectives for their balance of payments and their domestic economies.

Role of Public Lending

While foreign official lenders (foreign governments and the international development lending institutions) were once the predominant creditors for all developing countries, this has not been the case since the mid-1970s. Throughout the 1970s, net borrowing from official sources increased more slowly than net borrowing from private sources in every year, and by the end of 1979, official-source debt accounted for less than 42 percent of long-term external debt of non-oil developing countries. However, most of the low-income countries have continued throughout the 1970s and in 1980-81 to rely heavily on highly concessional ODA loans, never having made the shift to private source borrowing. While there was a considerable increase in net long-term borrowing from official sources in 1980 and 1981, and the ratio of official-source LDC debt to their total long-term debt rose (slightly) for the first time in years, this is expected to be temporary. In the near-term future, net official-source financial flows (excluding IMF flows) are expected to grow at a much more moderate pace because of a falling off in the rate of increase of ODA flows. For the low-income and other non-oil developing countries that rely almost exclusively on ODA flows, the projected slow growth of this type of external financing over the next few years will be an important constraint on their development efforts.

Eximbank Lending

The Export-Import Bank of the United States exists to help finance exports of US capital equipment and related services. To the extent that its loans are to borrowers in developing countries, they are classified by the OECD as "Other Official Flows". In recent years, the majority of Eximbank lending,

measured in dollars, has gone to borrowers in developing countries, with slightly over 40 percent to borrowers in the non-oil developing countries. This is partly because the Bank's charter requires that loans supplement and not compete with private capital, and in the richer markets local and US private financial institutions are usually able to finance sound transactions. Reduced budget authority in FY 1981 has required a stringent allocation of the Bank's finite resources to achieve the maximum impact on the US economy for each dollar lent. During FY 1981 Eximbank's net authorizations were $12,854 million.

The Role of the Private Banks in Lending to Developing Countries

Bank lending to developing countries has taken three principal forms: short-term trade financing; long-term loans guaranteed by the governments of industrial countries to promote exports of capital goods; medium and long-term non-guaranteed loans, often arranged in large amounts through syndicates of international banks. The volume of each form of bank lending expanded rapidly in the 1970s, but particularly the medium-term syndicated loans. A critical institutional innovation helping to popularize syndicated term loans among the banks was the use of "floating" rates of interest, adjusted at regular intervals to reflect market conditions.

Private bank claims on the non-OPEC developing countries totalled an estimated $230 billion by the end of 1981 compared to $195 billion at the end of 1980, $157 billion at the end of 1979 and $121 billion at end-1978. This implies a slowing down in the rate of growth of foreign bank lending to LDCs by banks reporting to the Bank for International Settlements (BIS) from a 30 percent increase in 1979 to a 17 percent increase in 1981. It is too early to say whether this trend will continue. It is to be expected that as the absolute volume of bank lending increases over time, the rate of growth of lending will fall. Also, this trend mainly reflects a slowdown of lending to only two countries, Brazil and Argentina. Other countries were able to achieve high rates of growth in borrowing from private banks. Private bank lending to developing countries has always been relatively concentrated among a few borrowers, and became more so over the past three years. By contrast US bank lending to the four largest borrowers -- Brazil, Mexico, Argentina and Korea -- has not become more concentrated.

Role of US Banks

As of the end of June 1981, US banks' claims on developing countries equalled $85 billion, about 39 percent of total claims on non-OPEC developing countries, as reported by the

Bank for International Settlements (BIS). While the overall picture for all BIS-reporting banks has been one of slowing rates of increase over the past three years, US banks by comparison have increased the rate of growth of their lending to developing countries from 19 percent in 1979 to close to 23 percent in 1981. They extended over $14 billion in net new loans in 1980, and $8 billion in the first half of 1981. From January 1, 1980 to the end of June 1981, the largest net flows were to Mexico ($6.1 billion), Argentina ($3.5 billion), and South Korea ($3.3 billion). The largest borrower in terms of outstanding credit is Mexico ($18.1 billion at end of June 1981), which just recently surpassed Brazil ($17.3 billion). Mexico, Brazil, Argentina, and Korea together account for about 62 percent of all US bank claims on non-OPEC developing countries.

Developing Country Recourse to International Bond Markets

Bond finance accounts for only a small fraction of external borrowing by developing countries and is available to only a small number of them, since investors prefer established names and, unlike large banks, are not equipped to assess country risk. In 1977-80, the non-OPEC developing country share of the world bond market declined in every year. During this period, non-oil developing countries issued bonds totalling $11.2 billion, while residents of OECD countries issued over $103.2 billion. In 1981, the non-OPEC developing countries bond finance appears to have rebounded somewhat.

Role of the International Monetary Fund

Private capital markets continue to provide the bulk of the financial resources needed by countries in balance-of-payments deficit. However, countries encountering financing difficulties often require temporary official balance-of-payments financing in order to help implement economic adjustment programs. The IMF is the principal source of official balance-of-payments financing and a major provider of technical economic policy advice to member countries, both developed and developing. The character of IMF financing extended in FY 1981 reflected both the nature of members' payments imbalances and the need for economic policy adjustment. Consequently, the IMF has enlarged the amount of resources available to members and directed the bulk of financing flows through its facilities carrying more comprehensive policy conditions. In FY 1981, the IMF took the following decisions that will affect its financing operations with developing country members:

-- Access to IMF resources was increased in recognition of

large financing needs stemming from the current level of payments imbalances. Most members' quotas were increased by 50 percent in December 1980. The IMF Executive Board also agreed that members facing severe imbalances and implementing serious adjustment programs can obtain up to 150 percent of quota annually for up to three years. (The Board had in FY 1980 set an enlarged limit at 200 percent of quota yearly up to 600 percent of quota over three years, but in light of the quota increase the reduced percentage limits still permit higher absolute levels of financing.) This policy of enlarged access is being financed by borrowing arrangements from a number of members' central banks or official agencies, including an SDR 8 billion (approximately $9 billion) arrangement with the Saudi Arabian Monetary Authority.

-- To encourage greater resort to conditional resources available under the IMF's Supplementary Financing Facility, an interest subsidy account was established to reduce the cost of financing from the SFF by up to 3 percentage points for low-income developing countries. The account will be financed primarily from repayments of Trust Fund loans plus voluntary contributions from some member countries.

-- In May 1981, the IMF adopted a decision on compensatory financing of fluctuations in the cost of cereal imports. Under this decision, temporary financing is available to members that encounter a balance-of-payments problem produced by a surge in the cost of their cereal imports that is largely attributable to factors beyond their control. Cereals account for more than three-fourths of the calorie content of all foods imported by low-income countries. Total outstanding drawings under this facility (which is integrated into the Compensatory Financing Facility) cannot exceed 100 percent of quota.

Reflecting these new policies and large-scale payments imbalances, the level of IMF financing increased substantially in FY 1981. Drawings by non-oil developing countries totaled SDR 6.4 billion (approximately $7.4 billion), up from SDR 3 billion the preceding year. Net drawings (drawings minus repayments) totaled SDR 4.8 billion (about $5.6 billion). As of September 30, 1981, the IMF had stand-by or extended arrangements in effect with 41 non-oil developing countries representing a total financing commitment of SDR 14.4 billion (about $16.5 billion).

The Debt Servicing Capacity of Developing Countries Assisted by the United States

The debt situation of US-assisted developing countries

varies greatly from country to country. Some developing countries are in such a strong payments position that they are net creditors vis-a-vis the United States. The vast majority of developing countries are meeting their debt-servicing obligations on schedule. However, a significant number of countries have already encountered or are currently experiencing serious debt servicing problems. This is reflected in a relatively large number of multilateral debt renegotiations under the aegis of the Paris Club and in renegotiations of obligations to private creditors during 1981.

There are no simple indicators of debt servicing capacity. Some countries with debt service ratios as high as 40 percent (interest and principal payments as a percentage of exports of goods and services) have had little difficulty in managing their debt. Others, with debt service ratios of less than 10 percent, have accumulated very large payments arrears and, in some cases, have been compelled to seek debt relief. The apparent paradox is explained partly by how easily countries can borrow commercially. As long as foreign lenders have confidence in the management of an economy, they will roll over repayments of principal. In such circumstances, the interest service ratio -- interest payments divided by exports of goods and services -- may be a better indicator of the country's ability to make payments abroad.

A high-deficit, high-debt approach to development doesn't necessarily get a country into trouble, but it is risky. If efficient use is made of borrowed funds to maintain investment levels on economically justified projects which also generate export earnings, then future economic growth is assured, as is the ability to meet required debt service payments arising from the borrowing. On the other hand, if external borrowings are used to finance consumption either directly or indirectly (e.g. by displacing domestic savings), or if the recipient's investment program yields a marginal return which is less than the marginal cost of borrowing, debt servicing problems in future years can be expected. What actually happens is that many developing countries, under social or political pressure to meet the basic needs of their populations, as well as through shortsighted economic policies overall, use a substantial portion of their debt-creating capital inflow directly or indirectly for purposes which have no productive return out of which future debt service can be paid.

The total medium- and long-term external debt of all non-oil developing countries rose from $273 billion at the end of 1978 to an estimated $425 billion at the end of 1981. (This excludes certain components of debt, mainly certain undisclosed military debt, IMF repayment obligations, and short-term debt. Therefore, these statistics understate the growth of indebtedness during the period under review since there was a sharp

increase in short term and other unrecorded debt creating financial flows in 1980 and 1981.) This corresponds to an average annual rate of increase of about 16 percent. (The increase is considerably smaller when the nominal value of outstanding debt is adjusted for inflation). In aggregate terms, total medium-and long-term outstanding non-oil LDC indebtedness (disbursed), measured in relation to such variables as exports and GDP, was substantially lower at the end of 1981 than at the end of 1978 and is broadly comparable to the level existing in the very early 1970s and 1975-76. However, the apparent improvement in the real debt situation seems to have been provided mainly by the use of reserves and the rapid build-up of short-term (less than 12 months) debt to meet much of the developing countries' financing needs and also the accumulation of payments arrears. Also, the real burden of debt service has increased.

From 1978 to 1981, debt service payments by non-oil developing countries rose (in nominal dollars) from $44 billion in 1978 to $96 billion in 1981, for an average annual rate of 30 percent. Between these same years, the average debt service ratio rose from 17 percent to 21 percent, in spite of relatively buoyant export growth. Table 2 provides debt and debt service ratios for the thirty non-oil developing countries that have the largest amount of debt. Between 1973 and 1979 outstanding debt increased by 22 percent per annum, but debt service payments only increased by 26 percent per annum for these countries.

Several factors may be identified as contributing to this deterioration in the LDC debt service burden. First, the amortization component of debt service obligations for much of the debt contracted in the 1970s is just beginning to show up in statistics, because grace periods on amortization finally have come to an end. Second, the terms of borrowing from commercial banks have hardened, as reflected in shorter average maturities and higher spreads over LIBOR on new loans. Lastly, high inflation rates in the developed countries have translated into higher nominal interest rates since nearly all loans to LDCs from foreign commercial banks have been at variable interest rates. While variable rates do not increase the real debt service burden, they can add significantly to the cash flow problems of borrowers.

While the debt service ratio is an imperfect measure of a country's debt service burden, this upward trend is a matter of concern for two reasons. First, if non-oil developing countries' export earnings grow relatively slowly in the next several years -- as indicated in various projections -- debt service payments will preempt a larger share of the foreign exchange available to the non-oil developing countries. This is likely to translate into increasing balance of payment

TABLE 2

Major Debtor Countries Among the Non-Oil Developing Countries at the end of 1979 1/
(in millions of dollars)

	Debt Outstanding 2/	Debt Service 3/	Debt Service Ratio % 3/
Algeria	17,200	3,100	21.5
Argentina	12,000	2,400	24.2
Bangladesh	2,900	85	10.2
Brazil	51,800	10,800	60.0
Chile	7,300	1,650	34.6
Colombia	3,900	740	14.9
Ecuador	2,700	715	28.6
Egypt	12,000	1,350	20.5
Greece	6,000	1,300	15.5
India	16,900	1,100	12.9
Indonesia	16,000	2,100	13.5
Iran	9,700	2,400	8.9
Israel	10,000	856	8.5
Ivory Coast	4,000	680	22.3
Korea	15,800	2,500	12.8
Malaysia	3,600	800	5.3
Mexico	33,500	7,800	31.7
Morocco	6,300	799	24.4
Nigeria	4,100	1,300	5.1
Pakistan	8,100	494	27.3
Peru	7,800	900	21.8
Philippines	7,700	1,300	16.5
Portugal	4,200	550	8.0
Sudan	2,600	300	35.8
Syrian Arab Republic	2,700	300	11.7
Thailand	3,300	800	9.6
Tunisia	3,300	360	13.8
Turkey	11,400	1,138	27.1
Venezuela	10,800	2,200	9.8
Yugoslavia	12,500	2,300	102.8
Zaire	3,700	500	28.3

Sources: IMF, "External Indebtedness of Developing Countries", Occasional Paper Number 3, May 1981. IBRD, World Debt Tables (1980 Edition). OECD, Development Assistance Committee, Development Cooperation, 1981.

1/ Medium-term and long-term external debt (including non-guaranteed debt), Countries with outstanding debt of more than $2.5 billion at the end of 1979.
2/ End of year.
3/ Preliminary.

strain, and additional debt problems among the LDCs. At the very least it will mean that these countries will have less foreign exchange to purchase capital good imports necessary to expand their productive capacity. Second, the low-income developing countries, which generally are least able to bear heavy debt servicing burdens, experienced the sharpest rise in their aggregate debt service ratio over 1978-1981.

On the other hand, if LIBOR continues to fall as it has in the last months of 1981, this should reduce debt service obligations considerably -- each percentage point decrease in average LIBOR maintained over a year translates into reduced interest service payments for the non-oil LDCs of between $2.2-$2.5 billion a year.

The US Government Stake

The US Government is the second largest source of credit to the developing countries, after the World Bank group. As of December 31, 1980, developing countries (both non-oil and oil-exporting) owed the United States $44.1 billion. This indebtedness is highly concentrated in eight countries which together account for about 58 percent of total outstanding long-term indebtedness of developing countries to the US Government: Israel, Egypt, India, Korea, Pakistan, Turkey, Brazil, and Indonesia (See Table 3). Among this group, three countries, Turkey, Pakistan, and Israel have been provided with debt relief by the US Government in 1980 or 1981. Other LDCs whose outstanding long term indebtedness to the USG is equal to or greater than $100 million as of December 31, 1980, and are currently experiencing serious debt servicing problems, include Zaire, the Sudan, Tanzania, Zambia, Nicaragua, and Jamaica.

Debt Rescheduling Operations in 1981

While the vast majority of developing countries were able to meet their external debt service obligations in 1981, a small group of countries sought debt relief from official or private creditors, or both. In responding to these requests, the US Government generally adhered to its established policy on granting debt-relief, as described below in detail. There are four key elements to this policy: (a) debt relief is an extraordinary measure taken when a debtor country faces a situation of imminent default; (b) the US Government will participate in debt relief negotiations only after the debtor country has adopted an economic stabilization program -- normally supported by an IMF program -- that addresses its underlying problems; (c) the debt rescheduling negotiations should be carried out in a multilateral context to ensure equitable burden-sharing among official creditors; and (d) the

TABLE 3

Selected Financial Data on Top LDC Debtors to the United States Government
($ millions)

	Debt Outstanding (end of 1980)	Gross Loan Disbursement CY 80	CY 1980 Total Payments (Principal & Interest) to USG
Israel	6382	1394	577
Egypt	3748	1358	124
India	3340	100	182
Korea	2997	499	587
Pakistan	2650	106	139
Turkey	2340	528	290
Brazil	2297	180	318
Indonesia	2240	150	128
Taiwan	1522	484	158
Mexico	922	249	135
Colombia	866	46	68
Bangladesh	840	99	99
Greece	823	103	219
Portugal	803	82	274
Chile	729	3	104
Philippines	720	54	99
Algeria	701	151	76
Yugoslavia	676	219	111
Zaire	657	180	95
Morocco	616	110	121

Source: Office of Data Services, US Treasury Department

debtor country receiving debt relief must not discriminate against the United States and other participating governments in favor of other categories of creditors.

During 1981, the United States participated in eight multilateral debt rescheduling operations. The debtor countries involved were Pakistan, Togo, Madagascar, the Central African Republic, Zaire, Senegal, Uganda, and Liberia. (At the time of writing, rescheduling operations in the case of Liberia had not been completed.) In addition, Israel was granted debt relief by the United States on a bilateral basis.

The United States and ten of Pakistan's principal creditors met in Paris on January 13 and 14, 1981, as a Working Group of the Pakistan Consortium, and agreed to provide debt relief for Pakistan, even though Pakistan was not considered to be in a position of imminent default. After consulting with the Congress, President Carter decided to make an exception to US policy and extend economic aid to Pakistan in the form of debt relief. The exception was justified by the Soviet invasion of Afghanistan and Pakistan's strategic importance in the region. The debt relief granted was limited to official development assistance (ODA) loans, and hence excluded export credits provided or guaranteed by governments. The amount rescheduled under this arrangement included 90 percent of debt service obligations originally due from January 15, 1981 through July 14, 1982, and totalled approximately $230 million, of which the US share was $117 million. The repayment schedule (grace period and duration) and interest rate to be paid with respect to this reorganization were to be determined bilaterally so as to reach in each case an overall grant element of 55 percent. A bilateral implementing agreement between the United States and Pakistan was signed on May 10, 1981.

The United States and ten other official creditors met in Paris on February 19 and 20, 1981, and agreed to reschedule part of Togo's external debt service obligations in light of the economic difficulties faced by Togo and satisfaction with the economic adjustment program undertaken by the Government of Togo. (Togo had been granted debt relief by official creditors once previously in 1979.) The amounts rescheduled in the 1981 operation represented 85 percent of principal and interest payments originally due from January 1, 1981 through December 31, 1982, but excluded debt service due as a result of the previous consolidation. Rescheduling of amounts falling due between February 15, 1982 and December 31, 1982 were conditioned on Togo's reaching understandings with the IMF no later than January 31, 1982, on implementation of the second year of its standby arrangement. The repayment period for the rescheduled debt service was 9-1/2 years, including a 4-1/2 year grace period. A bilateral implementing agreement between the United States and Togo was signed on September 18, 1981

Twelve of Madagascar's principal creditors met in Paris on April 29 and 30, 1981 and agreed to reschedule 85 percent of principal and interest payments falling due from January 1, 1981 up to June 30, 1982. Debt relief was provided also on external payments arrears outstanding as of January 1, 1981. The repayment period for the rescheduled debt service is 9-3/4 years, including 4-3/4 years of grace. The repayment period for arrears is 4-3/4 years without any grace period. The United States was a de minimis creditor for the purposes of this operation and, therefore, expects to receive payments from Madagascar on schedule.

Seven of the Central African Republic's principal creditors, including the United States, met in Paris on June 11 and 12, 1981, and agreed to reschedule 85 percent of principal and interest payments falling due from January 1, 1981 through December 31, 1981, as well as official payments arrears outstanding as of January 1, 1981. The repayment period for the rescheduled debt service and arrears is 9 1/2 years, including 4 1/2 years of grace.

Twelve of Zaire's official creditors, including the United States, met in Paris on July 8 and 9, 1981 to consider Zaire's request for additonal debt relief. Zaire had been granted debt relief three times previously by official creditors -- in 1976, 1977 and in December 1979. The creditors agreed to reschedule 90 percent of principal and interest falling due between January 1, 1981 and December 31, 1981. Conditioned upon Zaire's continued implementation of its extended arrangement with the IMF, the creditors also agreed to reschedule on the same terms debt service payments falling due between January 1, 1982 and December 31, 1982. The repayment period on the amounts rescheduled is 10-1/2 years, including 4-1/2 years of grace. Zaire's creditors also agreed to reschedule payments relating to previously rescheduled debt falling due in 1981. It was agreed that one-third of these payments would be repaid on March 31, 1982, and the remaining two-thirds on March 31, 1983.

Representatives of the United States and twelve other creditors met in Paris on October 12 and 13, 1981 to negotiate a debt relief arrangement with the Government of Senegal. The creditor countries agreed to reschedule 85 perent of principal and interest falling due from July 1, 1981 up to June 30, 1982. The repayment period for the rescheduled debt service is 9-1/2 years, including a 4-1/2 year grace period. The non-consolidated debt is scheduled to be repaid over the grace period.

Seven of Uganda's official creditors, including the United States, met in Paris on November 17 and 18, 1981 and agreed to reschedule 90 percent of principal and interest payments

falling due between July 1, 1981 and June 30, 1982. Debt relief was provided also on external payments arrears outstanding as of June 30, 1981. The repayment period for the rescheduled debt service is 10 years, including 5 years of grace. The repayment period for arrears is 8 years, including 4-1/2 years of grace.

Chapter II.D.

PRIVATE DIRECT INVESTMENT

US Investment in Developing Countries

The United States is the largest single source of private direct investment flows to developing countries, although its proportional share has fallen slightly in recent years, mainly reflecting larger investment flows from other developed countries and new capital exporters in the Middle East. At the end of 1980, US direct investment in developing countries was $52.7 billion, of which roughly 73 percent was in Latin America and approximately 12 percent in OPEC states.

In recent years US direct investment in developing countries has grown at a much faster rate than in developed countries. For the previous 25 years (1950-1974), the rate of growth of US private direct investment in developed countries far outpaced the rate of increase in the developing world (12% annual average vs. 5.5% for LDCs); over that period the proportion of US private direct investment in developing countries fell from 50 percent to 18 percent of total US direct investment abroad. By contrast, for the more recent period (1974-1981), US direct investment in developed countries has grown by about 10 percent per annum in nominal terms. Given the substantial rise in the worldwide rate of inflation over the same period, this indicates a considerable slowdown in real investment growth in the developed countries. During this same period, the annual rate of increase of US direct investment in developing countries has accelerated to close to 20 percent in nominal terms, over three times the annual average of the previous 25 years.

While this buoyant growth has provided an important resource to the developing world in a period of slowed worldwide economic activity, its benefits have not been uniformly distributed. Almost half of all US investment in developing countries is concentrated in 10 non-OPEC, non-tax haven countries: Brazil, Mexico, Argentina, Hong Kong, Peru, the Philippines, Egypt, Singapore, Colombia, and South Korea. Of $17.7 billion in US direct investment in the manufacturing sector, 70 percent is in just four countries: Brazil ($5.1 billion); Mexico ($4.5 billion); Argentina ($1.5 billion); and Venezuela ($1.0 billion). Further, as much as 25 percent of all US investment in developing countries may be located in offshore tax havens such as Bermuda. Most of the "success-story" developing countries continue to draw large amounts of US direct investment, and some advanced developing countries such as Hong Kong, Singapore and South Korea are now themselves becoming the source of direct investment funds for other

developing countries. In lower income developing countries, however, even when their domestic policies are favorable to foreign investment, the lack of infrastructural facilities, markets, inputs, and trained personnel still impedes US and other investment flows. Further, political-economic uncertainties or negative investor perceptions of host government attitudes towards the private sector, domestic or foreign, may hinder investment flows, even in areas where governments clearly do seek foreign capital and technology.

Diversification in Forms of Investment

Recent years have seen a marked shift in the forms of foreign direct investment, from wholly-owned subsidiaries to joint ventures and other forms of non-equity participation. Factors contributing to this shift include changes in the competitive environment, increased host government intervention in the investment decision-making process, and increased investor perception of risk. The increase in joint-ventures, in particular, has been inspired in part by host country government pressure, and in some cases by legal obligation to introduce domestic equity involvement in foreign-owned projects.

New forms of "non-equity" participation are evolving. Some of these facilitate the transfer of technology and development of the domestic industrial base while reducing the need for US equity exposure in the venture. For example, closely-linked long-term subcontracting arrangements may now include major transfers of US managerial expertise, technology, credit and manufacturing assistance that continue over the lifetime of the production facility. Fee and royalty systems covering the sale or use of intangible property such as patents, industrial processes, trademarks and copyrights also continue to be used to carry out technology transfers. In 1980, revenues to US firms from fees and royalties from developing countries increased by about 22 percent. The largest increase occurred in revenues from the non-manufacturing sector. New and more flexible forms of foreign investor participation may be emerging fastest in those developing countries that can now draw on their own financial resources or foreign borrowing capacity. These countries may be less interested in attracting foreign capital than in gaining access to foreign technology and management capabilities.

Overall, host country government policies play a great part in determining the degree and direction of US economic participation. Many of the sucessful newly-industrialized countries have chosen to emphasize export-led growth rather than import-substitution and some offer investment incentives to attract foreign direct investment in manufacture for export. There is also a tendency for governments of host countries -- both developed and developing -- to impose

performance requirements which force import substitution, export promotion and/or other orientations either through linkage with investment screening mechanisms and/or incentives. The use of incentives and performance requirements generally distorts trade and investment patterns. The United States is presently working with other nations to achieve a consensus on acceptable practices relating to incentives/disincenties and performance requirements.

US Investment Policy

It is US government policy neither to promote nor discourage the flow of international investment but rather to permit the marketplace to work freely to determine the most efficient allocation of economic resources. However, within this framework, the US government recognizes the unique contribution made by private investment to developing countries, both as a substantial supplement to other forms of resource flows and as an engine of growth which carries with it the new business concepts, technologies, marketing, management and distribution skills, and organizational structures needed to spur development. Accordingly, the US government provides considerable assistance, in the United States and through missions abroad, to facilitate these flows. Included in this assistance is support for US Government bilateral programs such as the Overseas Private Investment Corporation (OPIC, see chapter IV.D.), and for multilateral private-sector-oriented programs such as the International Finance Corporation (IFC, see Chapter IV.A.). AID programs also aim at facilitating private investment flows.

Current US Efforts to Facilitate Investment Flows

Bilateral Investment Treaties

Bilateral political risk insurance programs are complemented in some other developed countries by a network of Bilateral Investment Treaties. The United States views a Bilateral Investment Treaty as a useful mechanism for reducing investor perception of risk. Such a treaty between the United States and a developing country would help to create a more stable climate for investment by establishing a mutually agreed-upon framework of principles for investor treatment. A model US Bilateral Investment Treaty has been developed covering issues such as: expropriation, national treatment/most-favored nation treatment, capital transfers, and dispute settlement. The first US bilateral negotiations on a Bilateral Investment Treaty should begin early in 1982.

Multilateral Investment Insurance

The United States could support a multilateral political risk insurance program created under the aegis of the World Bank or IFC. Such a mechanism would create the insurance capacity needed to cover major investment projects, including energy and minerals exploration and development, and thus discourage hostile host country action against foreign investors.

United Nations Negotiations on a Code of Conduct

The United States is participating actively in the UN negotiations on a code of conduct relating to transnational corporations, which are being conducted under the auspices of the UN Commission on Transnational Corporations. About two-thirds of the code's provisions have been drafted, although some contain passages which are still under discussion. Hard issues remain, such as the development of acceptable draft texts on compensation, jurisdiction, and dispute settlement.

In the US view, guidelines which affirm standards of good practice for both enterprises and governments can contribute to improved relations between firms and governments and may limit the tendency for unilateral government intervention in investment matters. Through appropriate provisions on nationalization and compensation, jurisdiction and dispute settlement standards may also be able to reduce potential conflicts between governments over investment issues, thereby fostering the liberal climate for international investment which we seek. However, the United States can support only guidelines that:

-- are voluntary;

-- do not discriminate against multinational firms in favor of purely national enterprises, nor among multinational firms on the basis of parent country;

-- are balanced, to include references to the responsibilities of governments as well as of the multinational enterprises;
-- apply equally to all enterprises regardless of ownership, whether private, public or mixed.

Support for Other Multilateral Efforts

The United States supports the strong private sector orientation of the International Finance Corporation (IFC) and endorses its efforts to develop new ways to encourage the growth of productive private investment in developing coun-

tries. The role of the IFC complements that of the World Bank and the regional development banks which finance infrastructural projects needed to create the climate for dynamic economic growth (see Chapter IV.A).

Chapter II.E.

ECONOMIC POLICIES OF DEVELOPING COUNTRIES

The Importance of Economic Policies of Developing Countries

The economic development of all countries, developed as well as developing, is naturally influenced by both external and internal factors. One may argue in addition that the role of external influences on growth and development prospects is relatively greater in the developing countries, owing to their generally greater ratio of foreign trade to national income. However, all too often the misleading and sweeping generalization is presented that the problems of developing countries are due entirely to external forces, and particularly to the unsatisfactory economic performance of many developed nations and their policies toward the developing countries.

This generalization is analytically questionable, empirically weak, and - worse - may be ultimately a damaging self-delusion potentially harmful to the economic prospects of a country whose policymakers are affected by it. For it is, on the contrary, the soundness of domestic economic and social policies that is in general the dominant long-term influence on development - whether the task is to take advantage of favorable external circumstances or a successful and flexible adaptation to unfavorable international events. The economic development of nations depends largely on the sweat, ideas, and initiative of their individual citizens, and on the nature of the policies followed by the country itself. Economic assistance can never be a substitute for the country's own self-help efforts. Further, economic assistance in support of ill-conceived policies would be a poor investment indeed.

There is a growing consensus, shared not only by the United States and other donor nations, but by multilateral institutions such as the World Bank (see its recent study on Sub-Sahara Africa) and by an increasing number of developing countries themselves, that in many countries the range and depth of public intervention have gone much too far. Certainly, there are clear grounds on which public economic intervention can be defended as conducive to faster growth and to equity. But too often government policies have created market imperfections instead of correcting them. Too often they have resulted in smothering individual efforts instead of stimulating individual initiative and providing a favorable climate for growth. (Perhaps the most dramatic illustrations are found in agriculture, where artificially low prices have weakened farmers' incentives and thus exacerbated food problems.) With the second oil price crisis of 1979-80, it has become clearer that policy reform in the direction of greater

reliance on individual initiative and on the market mechanism is no longer - if it ever was - merely desirable: it has become critical.

The United States, therefore, sees a need for all countries to re-examine their policies in the direction of removing unnecessary or harmful state controls and regulations, of providing more breathing space for private sector activities -- domestic as well as foreign -- of injecting more competition into their domestic markets, of allowing greater openness toward the world economy. Correspondingly, the United States sees a need for its own economic assistance policies to be formulated partly with this objective in mind. This chapter examines some specific aspects of the importance of developing countries' policies, and the uses and limits of public economic intervention, in order to provide a sharper focus for the dialogue on economic development and on the role of US assistance within it.

Developing-Country Policies and the Public Sector

The policy measures implemented by governments of developing countries that directly influence the pace and pattern of development fall into three broad areas that are closely interrelated yet distinct:

-- Policies concerning the goods and services that are produced directly by the public sector, and the associated pattern of direct public investment;

-- Policies affecting prices, incentives to private producers, and generally the determinants of supply and demand. In cases where these policies create an imbalance between supply and demand, one usually finds associated intervention on the marketing and distribution of goods and services; and,

-- Policies concerning mobilization of resources for development, particularly financial resources, both domestic and foreign. Along with this go decisions about the allocation of these resources between the public and the private sectors.

The governments of developing countries are more or less active in each of these three areas, reflecting broad policy perspectives about the role of market forces and private enterprise in their development. This is not the place to go in detail into the well-known historical, economic and political roots of state intervention in developing countries. These range from a reaction to colonial (and therefore foreign) control to pressures for more equal income distribution,

generation of funds for public investment, market imperfections, political and social demands, and others. At any rate, recently there has been mounting criticism that the public sector in many developing countries has been too active and interventionist, at considerable costs in terms of efficiency, growth and, in some cases, equity.

-- First, a publicly managed economy faces much greater requirements of skilled managers and technicians in the public administration, and in terms of public institutions that can generate and analyze information and facilitate effective decisions. Thus, prices that are not determined by market forces have to be set, debated in detail and agreed upon, and scarce investment resources and foreign currency have to be explicitly allocated with lengthy consideration of the effects of allocation decisions on both efficiency and equity. Yet, skilled managers and technicians, and effective institutions are extremely scarce in developing countries. Instead, the market is an excellent device to economize on decision-making and planning skills.

-- Second, even if the requisite information and analytical expertise, and data collection and elaboration facilities were available to determine, for example, the "fair" allocation of scarce foreign exchange, the "just" price of a product, or the "right" level of interest rates, there are immense political pressures to peg interest rates at too low a level, or to favor certain kinds of enterprises or certain groups of consumers.

-- Third, a publicly-managed firm need not in theory have any different personnel or cost structure than the corresponding private firm. In practice, however, it frequently operates at a lower level of efficiency because of inadequate incentives, uneconomic demands on its issues and inability to avoid the impact of poor macroeconomic policies, pressures to respond to political forces, its pressures for an uneconomically high workforce and dependence upon haphazard budgetary decisions.

Public Production and Investment

In the area of direct public production and investment the scope and rationale for public participation varies widely from activity to activity. For many forms of infrastructure (highways, airports, dams, etc.) the economic rationale for public sector provision is well-known and relatively straightforward. The gestation and payback periods associated with infrastructural projects are usually much longer than even a farsighted private sector wishes to contemplate. Also, these

projects normally give rise to "externalities", i.e., beneficial economic effects accruing to entities external to the project; when these are large and are not recoverable by the private investors, the investors would be understandably reluctant to get directly involved. The main issues of public investment in infrastructure, therefore, have to do with cost effectiveness and pricing.

For some services such as health and education, the efficiency rationale for direct public provision is much less obvious, and considerations of interpersonal and interregional equity loom larger. In other areas, such as industry, there is wide diversity among countries in the scope of public sector activity, and political, social, or national considerations are important determinants of the public sector's role. In agriculture, production in most countries is largely carried out privately, while the public sector often provides a variety of associated services.

Infrastructure

Direct public investment in infrastructure and public provision of the associated services is commonplace, both in developed and developing countries. In most instances the required investment is large relative to the size of the domestic private capital market, and production is subject to increasing returns to scale. The activities are, therefore, "natural monopolies" so that it makes economic sense to have only one supplier. Alternatively, distribution of the services (e.g., city streets and street lighting) is such that it would be highly impractical to charge individual users.

Not all of the above considerations point inevitably to direct public production. For instance, utilities and other natural monopolies can be operated privately, with some amount of public regulation. However, domestic private investors may be unwilling or unable to undertake such investments, and the basic services provided may be considered too vital to the national interest to be entrusted to foreign private capital.

Effective policies in this area are important because infrastructure provides economic services that enormously facilitate production, distribution, and consumption. The issues of relevance here have to do with cost effectiveness in construction, maintenance and operating efficiency, including cost recovery insofar as practicable through fees and user charges. First, in both construction and maintenance there is sometimes scope for reducing costs by increased reliance on private competitive contracts. For instance, Argentina, Brazil, and Colombia have recently increasingly relied on private contractors for routine highway maintenance, and significant economies have resulted. Second, costs can often

be reduced through more economical design. For instance, in many areas, standpipes and pit latrines can satisfactorily provide for water and sanitation, and are much less costly than house connections and sewer networks. Third, greater use of local materials, labor and equipment can also reduce costs, especially when suitable complementary policies are adopted. For example, in Kenya the special minimum wage for labor-intensive rural works is lower than for other construction work.

Operational efficiency depends on policies to minimize costs and to adequately cover costs through user charges, e.g., for water, electricity, telecommunications, and transport. In some cases, operation can be carried out privately. The Ivory Coast, for example, has contracted to a private company the maintenance and operation of its national water supply system, with very positive results. Many road and river transport services can be provided efficiently by competitive private firms. In a variety of countries, including Congo, Guinea, Zaire, Sudan, India, Sierra Leone, and Sri Lanka the role of the private sector in providing transport services has been enhanced.

The gains in efficiency from increased reliance on the private sector naturally depend largely on the nature of government regulation. For road transport, enforcement of regulations regarding vehicle overloading and safety can contribute positively to efficiency. On the other hand, a structure of fees and licensing requirements for specific trucking services and routes normally hampers competition and hinders efficiency. In Chile, deregulation along these lines has resulted in a sharp expansion in road transport services.

It is difficult to generalize about policies affecting the pricing of services associated with infrastructure (for technical reasons having to do with externalities, increasing returns to scale, peak load problems, etc.). Frequently, however, distributional considerations and political pressures combine to keep user charges from adequately reflecting costs. For example, in US rail transport, distortions caused by rate structures that subsidize some uses and overcharge for others frequently lead to inadequate revenues and an inefficient pattern of rail usage. Similar problems related to rail fees structures are currently under review in India and Tanzania, among others.

For services associated with ports, telecommunications facilities, and electric power, one often finds serious problems of excess demand leading to congestion and service failure. (Telephone services in many developing countries are perhaps the outstanding example.) In this case, while the price for the service may be adequate to cover average production cost, it may not be high enough to choke off excess

demand. Pricing reforms aimed at these problems have been carried out in Brazil, India, and Thailand in the telecommunications area, and in Tunisia and Thailand for electric power.

Social Services and Human Development Programs

Another important area of direct public production and investment is that of social services and human development programs such as education, health, family planning and nutrition. The most compelling rationale for public provision in this area has to do with distributional objectives, and with constraints on how these objectives are to be achieved. In principle, many of these services could be produced privately, and needy people could be given cash or vouchers as required. In practice, the prevailing approach has been direct public provision.

These services are important not only because they directly affect the well-being of individuals, but also because they represent investment in human resources that has been demonstrated to yield significant economic returns in the long run. The main policy issues here have to do with designing the services to effectively meet needs; producing the services on an efficient scale and at reasonable cost; and financing the services in ways that conform with the distributional objectives of providing for the basic needs of the poor, while avoiding undue subsidies for the non-poor. Section III.A.4. on human resources discusses how, in both education and health, there have been problems in most developing countries - mainly, an imbalance in favor of secondary and higher education at the expense of primary education, and of more complex health services at the expense of primary health care. This imbalance is generally associated with an urban bias. This has occurred despite evidence that private and social returns from primary education are greater than those of secondary and higher education, and that lower-cost primary health care can do far more to improve the general health of the population than the prevalent pattern of urban-located, hospital-based health services.

Also, one usually finds that basic social services, such as education and health, are provided free of charge to all users in most developing countries. An alternative approach is a more effective system of fees and user charges that aids the needy without unnecessarily subsidizing others from the very scarce resources available in a developing country. For instance, in higher education or in health services, setting fees above costs for those who can afford to pay helps to subsidize scholarships and health care for the needy. In nutrition, food subsidies can be focused on the poor (as in Sri Lanka) to a much greater extent than they often are, and can be

targeted - when practicable - on those specific foods more prominent in the diets of poor people, e.g., sorghum in Bangladesh or cassava in Indonesia. Such an approach is capable of improving the material lot and prospects of a much greater number of needy people than is possible through the indiscriminate and universal provision of subsidized basic services regardless of users' ability to pay -- and is accordingly strongly preferable on clear equity and social grounds.

Industry

The role of direct public production and investment in industry varies considerably from country to country. The industries more frequently affected include steel, fertilizers, textiles, chemicals, and extractive industries. The reasons alleged are generally that these industries require a large initial investment relative to the capacity of domestic capital markets, and that the limited potential market for the output fosters monopoly. These factors are particularly important in the poorer developing countries, where both domestic savings rates and per capita incomes are low. In addition, public ownership offers an alternative to foreign capital and control of vital industries, and supposedly permits the surplus generated by such enterprises to be channeled directly to other development uses.

One problem, discussed later, is that the surplus generated by the enterprise may be much lower if the enterprise is public than if it is private. Further, the argument in favor of direct public investment and production in manufacturing industrial sectors, even if initially valid, does not keep its relevance indefinitely. If the country eventually acquires a comparative advantage in the sector in question, domestic market size limitations no longer apply -- for the much larger export market permits domestic competition to develop, on an economically efficient basis, under appropriate public policies to that end. And, if the country does not acquire a comparative advantage in that sector, continued allocation to it of scarce resources -- whether public or privately owned -- would of course by highly questionable.

The distinction between public and private activity in the industrial sector of developing countries is often rather blurred. Some government-owned parastatals are run like private businesses and have substantial autonomy, while some private businesses are so closely regulated that they have relatively little room for discretion.

The main policy consideration here has to do with allowing adequate exposure of the industry to market forces and incentives. This is important because of the role of industry in

the development process, and of the healthy effect of exposure to economic incentives on efficiency and growth. Where there is insufficient exposure of public industrial enterprises to market forces, as for example in Egypt, Ghana, Senegal, Sudan, and Tanzania, these enterprises often constitute a net drain on national resources. In particular, they can be net users of foreign exchange; the productivity of labor can be low; the linkages with other sectors may transmit negative rather than positive impulses; and instead of generating surpluses they often require subsidies.

On the other hand, in countries such as Brazil, Korea, and Malawi, public enterprises have not been insulated from market pressures, and thus have made a significant positive contribution to rapid industrial growth. In Brazil and Korea, public enterprises were subjected to strong political pressures, but in the direction of emphasizing growth and efficiency. Korea's integrated steel mill, a public enterprise, is among the most efficient in the world and has successfully entered the markets of the developed countries. In Malawi, the government has actively promoted industry through parastatal investment, but with strict limits in terms of promotion and protection. In that country, parastatals, which account for more than half of industrial output, have generally remained free from government shielding and interference and have been profitable. Not only has industrial output grown rapidly, but so has productive employment.

Agriculture

In most developing countries agricultural production is carried out largely by the private sector. Indeed, about 80 percent of the world's agricultural production originates on family-run farms. The main instances of public production are in export crops, where previously foreign-owned estates have been nationalized. In general, the efficiency of family farms is higher than that of cooperative, collective, or state-owned operations.

The clearest appropriate role for government production and investment in agriculture involves public investment in agricultural research and extension activities. Such intervention can play a useful role in agricultural development, as it has done, for example, in Brazil, Korea, Malaysia, and Taiwan. Also commonplace is government investment in agricultural physical infrastructure, such as rural roads, electrification, and storage facilities. The policy issues involved here are no different from those discussed earlier under infrastructure in general.

In marketing and distribution, instead, the rationale for public sector participation is much weaker. Ineffective

high-cost public marketing and distribution services tend to depress the return to farmers and provide a disincentive to production. In Sub-Sahara Africa, public control of food marketing and input supply is sometimes rationalized on the grounds that rural African markets function imperfectly; that private traders would therefore exploit farmers; and that indigenous traders are still few in number, so that trade in foodstuffs might once again come to be dominated by foreigners. However, many recent studies suggest that, where private traders are active, markets are reasonably competitive; trader profits are rarely excessive; and farmers are protected from exploitation by market information and the availability of alternative points of sale. Public intervention can therefore much more usefully be directed to improving the availability of information and farmers' access to sale outlets.

Public marketing and distribution frequently result from other government policies that prevent prices from moving to equalize supply and demand in response to market forces, and therefore require public marketing and distribution to accomodate the resulting imbalance between supply and demand. These pricing policies have important effects on allocative efficiency and growth in developing countries. They are reviewed in the next section.

Pricing Policies

Policies that directly affect the prices of factors of production, or of goods and services -- including taxes, tariffs and subsidies; publicly fixed prices; and various forms of regulation -- are of critical importance in developing countries because they strongly affect the degree of efficiency of allocation of productive resources. Such policies also have important, though sometimes misrepresented, effects on the distribution of income and the incidence of poverty. Finally, pricing policies affect the capacity of the economy to mobilize financial resources to support development efforts.

This section discusses policies affecting the prices of goods, services, and resources that are not normally or necessarily supplied by the public sector. Some of the most important instances include policies affecting the prices of labor and capital; and policies that determine the prices of food and energy.

There is substantial variation among countries in terms of the extent to which governments actively intervene to determine prices, as opposed to price determination by market forces. In a fundamental sense the key issue is how accurately and effectively prices reflect economic scarcity, and how well they induce efficient resource allocation, rather than the specific

mechanism for determining prices. However, there are severe technical and political constraints to effective price determination by public intervention. The allocative and distributive effects of alternative prices are extremely difficult to evaluate, especially when several prices are being determined simultaneously. Even if the "right" price can be determined, there are often severe political pressures to keep some prices from rising (e.g., food and energy) or other prices from falling (e.g., real wages).

Trade and Exchange Policies

A variety of policies affect the prices of traded goods relative to one another, and relative to non-traded goods and services. These policies include the determination of exchange rates, tariffs and other restrictions on imports, and taxes or subsidies on exports. A problem in many developing countries is maintenance of an overvalued exchange rate, which understates the value of exports, imports, and import-substitutes relative to non-traded goods and services.

It is impossible in this space to review in depth the complex issues of international finance and economic development. The following may be briefly noted, however. The overall effect of an overvalued exchange rate is to shift resources away from activities that can generate or save foreign exchange (production of exports and import-substitutes) and towards activities that do not save or generate foreign exchange. At the same time, domestic demand is shifted in the opposite direction, towards tradeable goods and services, thereby further reducing net export supply and increasing import demand. Capacity to earn foreign exchange through trade is diminished, resulting in diminished capacity to finance imports of capital equipment and intermediate goods that usually cannot be produced domestically, and that are necessary to sustain production and growth.

Many developing countries with overvalued exchange rates are reluctant to undertake the corrective measure of devaluation. Devaluation is sometimes resisted on the economic grounds that exports will not expand in response to it, and that scope for reducing imports is limited. These arguments are usually overstated, particularly over the medium term during which the pattern of production can adjust to changes in relative prices, but also even in the short term. For instance, many refer to export crops, for which a period of several years may be required between planting and harvesting. However, the price of export crops will affect how carefully existing plants are tended and maintained; how completely they are harvested; and what portion of the harvest is available for export.

The more pressing arguments against devaluation are political, for devaluation usually means a decline in standard of living of some politically important groups, particularly those who provide services in urban areas. Secondly, devaluation can mean increased costs and reduced profits for domestic industrial firms that depend on imported inputs, but do not produce goods that are exports or close substitutes for imports. The political problems associated with this may be particularly great if the firms are publicly owned.

Without devaluation, countries often must resort to measures to restrict imports, such as rationing of scarce foreign exchange through import licenses. Such rationing almost inevitably has adverse effects on the efficiency of resource allocation, and is also extremely costly from an administrative standpoint. Further, such systems carry a strong potential for leading to black markets and corruption. Along with overvalued exchange rates, therefore, frequently go highly protective tariff structures. The structure of tariffs is hardly ever uniform. Instead, some industries are protected at the expense of others, and at the expense of agriculture. Further, many tariffs overcompensate for overvalued exchange rates and offer undue protection to selected industries that would be unprofitable at world market prices. Finally, whether uniform or not, tariff structures tend to penalize export production that uses imported inputs.

Direct taxes on exports, particularly exports of agricultural commodities, further reduce incentives to producers. Given the scarcity of foreign exchange resulting from overvalued exchange rates and tariff policies that unduly protect inefficient industries, the public sector frequently imposes this tax by becoming the sole legal purchaser of an export crop at a set price, so as to ensure that the foreign exchange generated will accrue to the public sector (where it can be rationed). If the ensuing public marketing system is inefficient and costly, this will further reduce incentives to producers.

Policies Affecting the Prices of Labor and Capital

Policies that directly or indirectly affect the prices of labor and capital influence the pattern of production among productive activities and the choice of technique within activities. For instance, policies which lower the cost of capital and increase costs of labor, encourage the choice and development of more capital-intensive techniques within all activities, at the expense of those activities where labor is relatively more important in production.

Policies that affect the prices of capital and labor include, aside from those dealing with exchange and trade,

policies affecting interest rates, and policies such as minimum wage and social security legislation that affect labor costs.

Production of capital goods (other than housing and construction) is fairly limited in most developing countries, particularly low-income countries, so that a large share of machinery and equipment for capital formation is imported. Overvalued exchange rates lower the costs of such imports. In the absence of domestic import-substituting capital-goods industries, there is no pressure for tariffs that would raise the costs of capital goods. Accordingly, such a regime tends to subsidize the use of capital relative to labor, and thus artificially raises the capital interests of production and lower the employment impact of a given amount of investment.

Policies that lead to interest rates which are unduly low (or negative in real terms) also encourage expansion of production by overly capital-intensive techniques and in capital-intensive activities.

Thirdly, the tendency to concentrate on interest rates as a cost of capital rather than as an incentive to domestic saving, delays the development of financial instruments and institutions which can reduce the dependency on foreign capital and improve the prospects for a higher investment rate.

The negative effects of such policies on economic growth are compounded by policies that can result in unduly high costs of labor, including minimum wage legislation, social security legislation, (which effectively is a tax on employment), and wage policies in the public sector. These policies reward those who work (or have worked) in the formal sector, but penalize those outside the formal sector by constraining expansion of employment, which could create opportunities for new jobs. The record on these policies is, at best, mixed. In some countries governments have either used minimum wage legislation sparingly, or else have not intervened in the market at all. On the other hand, in other countries, enforced minimum wage laws or excessive increases in public sector pay scales had the effect of distorting the structure of real wages during the 1970s.

Food and Energy Prices

Among the prices frequently determined by public sector policies, those of food and energy are especially important for development. Particularly in low-income countries, food represents a major proportion both of production and consumption. In many countries, especially in Africa, food production has lagged behind population growth, resulting in increased import requirements and/or greater incidence of hunger and malnutrition. Policies that tend to keep producer prices of

food too low contribute to this lag.

These measures reflect a policy objective of ensuring a regular supply of food to consumers, particularly to urban consumers, at affordable prices. This is typically accomplished by setting producer prices at below market levels, with purchases made by a state trading agency, and/or by various measures that provide imported food at artificially low prices such as direct subsidies, overvalued exchange rates and public food aid. Producer prices of food are kept down not only by the desire to keep consumer prices low (and real wages high), but also by costly public marketing, transport and distribution systems. When legitimate and defensible social purposes are accomplished by policies reducing producer incentives, however, the effect is inevitably to depress production (or marketed production), and worse, to discourage adoption of new agricultural techniques. What is more, artificially low prices to agricultural producers tend to exacerbate inequities since poverty is predominantly a rural phenomenon in most developing countries (especially low-income countries) and most of the poor depend on agricultural production for their livelihood.

Similarly, in energy, pricing policies in both developing and developed countries ought to respond to the the need to curb demand and stimulate supply. Instead, distributional and political objectives have to varying degrees inhibited the economically-required price increases, even in some oil-exporting developing countries, such as Ecuador, Egypt, Indonesia and Venezuela. The result has been much more rapid growth of energy use as a share of GNP than desirable for long term economic development. Of course, as with every economic policy issue, policies affecting energy prices have very complex ramifications which require careful consideration, and simple rules can be misleading. For instance, in many countries kerosene is a close substitute for fuelwood. Allowing the price of kerosene to rise conserves on the use of that fuel, and stimulates the use of wood at a considerable cost in terms of deforestation and eventual erosion of land, a cost that is not reflected in private decisions about consumption of fuelwood. (See Section III.A.3. for a discussion of this and related points). The general point is that prices have complex effects on the allocation of resources and the distribution of income, and developing country policies that affect prices need to take into account these effects much more carefully than has often been the case.

Macroeconomic Policies for Resource Mobilization

Many of the policies discussed earlier have important implications for resource mobilization. For instance, public policies with respect to human resource development affect the

stock and quality of human resources. The efficiency of public production affects domestic savings and investment. And of course, pricing policies also have important effects on domestic resource mobilization.

This section deals specifically with various aspects of monetary, credit, and fiscal policies, which directly affect the capacity of the economy to mobilize domestic savings and channel them into productive domestic investment. In developing countries, these policy areas are more closely interlinked than in developed countries, because capital markets are usually underdeveloped. Consequently, the public sector deficit is mainly financed by money creation, and the capacity of the central bank to affect the money supply through security transactions is severely limited. Where money creation and credit expansion are excessive, the ensuing inflationary pressures not only negatively affect savings, but also put downward pressure on the exchange rate. If this pressure is resisted, so that the domestic currency becomes overvalued, then the capacity to earn foreign exchange diminishes.

Expenditure Policy

For a given structure of revenues and level of expenditures, the allocation of government expenditure between consumption and investment will have a direct effect on the level of aggregate savings and investment. Most developing countries have two budgets, one for "recurrent" expenditures and one for "development" expenditures. However, to arbitrarily associate the former strictly with consumption is to underestimate the true extent of public investment. Many health and education services commonly included in recurrent budgets are actually investments in human resources. Second, maintenance and repair of the existing public capital stock (e.g., roads and equipment) typically comes under recurrent expenditures, yet actually should be included under gross investment. Third, recurrent expenditures on agricultural research and extension can arguably be considered a form of investment that increases the productive capacity of the agricultural sector.

The important policy issues here have to do not only with the optimal overall balance between public consumption and public investment, but also with the efficiency and productivity of public investment. For example, it is of little economic value to investing scarce resources in higher-education facilities if graduates will not be able to productively use the skills gained.

Tax Policy

The tax burden in developing countries is low compared to

that in developed countries. Thus, for 16 of the largest recipient countries of U.S. bilateral assistance (accounting for over three-quarters of such assistance in FY 1981), the ratio of tax revenue to GDP averaged only about 14 percent.

Developing countries tend to collect the bulk of their tax revenue through indirect taxes, which for the most part are regressive. In 1972-76, indirect taxes accounted for about two-thirds of total tax revenue in 63 developing countries, about double the percentage accounted for by such taxes in developed countries. On the other hand, some developing countries do have personal income taxes that are steeply progressive, and with relatively low threshold levels. In addition, businesses in some developing countries are subject to high nominal rates of taxation.

For a given level of government consumption, both the level and pattern of tax revenues will affect aggregate savings. To the extent that tax revenues match or exceed public consumption expenditures, public savings will be greater. The effect on private savings depends on how tax revenues are generated; however, these effects are difficult to measure empirically. Insofar as taxes affect mainly consumption but not savings or total income, the effects on aggregate savings can be positive. Further, taxes that affect savings that would not be productively invested domestically also have weak negative effects on domestic resource mobilization. On the other hand, taxes that do dampen incentives to save and invest have obvious strong negative effects on domestic resource mobilization. Generalizations on the influence of developing countries' tax policies on the degree of mobilization of resources are therefore particularly difficult to make, especially in light of the notoriously high degree of tax avoidance and evasion in developing countries.

With specific regard to corporate taxation, it is difficult to determine whether high nominal tax rates depress private sector capacity to invest. A major problem in this regard is again the administrative capacity of developing countries' governments as against the various devices available to business, such as transfer pricing and dual recordkeeping to avoid or evade taxes. The attempt to measure effective rates of business taxation in these countries is further complicated by the differing and broad range of investment incentives widely provided by developing countries' governments. Moreover, it is a difficult task to determine the extent to which businesses in general, and in particular sectors, are able to shift the impact of their tax burdens to consumers. However, should high rates of business taxation be combined with a pervasive system of price controls on products and rising costs of production, one would certainly expect to find significant disincentives to private sector investment in productive activities.

Monetary Policy

The effects of government consumption expenditures, investment expenditures and tax revenues on aggregate savings and investment also depend on the extent to which total government spending exceeds tax revenues, and how the resulting deficit is financed. To the extent that the deficit is financed by borrowing abroad, and demand can be met by imports, there is no necessary negative effect on private savings and investments. To the extent that the deficit is financed by borrowing through private financial institutions, this tends to exert upward pressure on interest rates (if they are flexible), which can stimulate private savings but retard private investment.

In many countries, however, there is substantial dependence on central bank financing. Initially, the ensuing growth in the money supply can meet the needs posed by an economy which is growing and becoming increasingly monetized. Beyond that point, however, undesirable inflationary pressures are generated. One option for dampening these pressures is to restrict private sector credit, either by direct controls or by setting interest rates at suitably high levels. In either case the effect on private investment is negative. If inflationary pressures are not dampened, the ensuing price increase taxes all income earners, and tends to shift expenditure patterns towards consumption and away from savings and productive investment, with damaging effects on economic growth.

Far too often developing country governments have been reluctant to let interest rates rise to reflect expected inflation and the economic scarcity of capital. The results are depressed savings and credit rationing, which frequently favors public enterprises and which inhibits the flow of capital to the most productive uses. Other credit policies involve the establishment of public lending institutions to channel loanable funds, often at subsidized interest rates, to particular groups such as farmers and small-scale industries. Though well-intentioned, these functions often can be performed with greater efficiency by private or quasi-private entities, lending at rates that more adequately reflect the cost of capital.

Some Concluding Remarks

While short answers to complex economic policy questions are almost always misleading, it is clearly warranted by the record of the past twenty or so years to conclude by underlining the following major propositions:

-- There are respectable economic grounds for public policy

intervention in the process of economic development, but far too often these have been used merely as witting or unwitting rationalizations for inefficiency or for subsidization of special groups.

-- The primacy of the developing countries' policies themselves as a determinant of development success, therefore, means that an improvement in those policies, in the direction of greater reliance on market forces and a less heavy government hand, can make an important contribution to the rate of material progress in the years to come.

-- To be more effective, development assistance should consequently strengthen and support developing countries' moves toward an improved set of economic policies.

The general nature of the policy dialogue with the developing countries through the multilateral agencies and the bilateral assistance programs is discussed in Chapter III.

Chapter II.F.

NORTH/SOUTH DIALOGUE

Background and Issues

The North-South dialogue can be broadly defined as the entire range of bilateral, regional or multilateral discussions and negotiations which occur between the industrialized developed countries and the developing countries.

More specifically, the term frequently is used to refer to discussions in multilateral fora concerning the international economic system. The existing system originated in the 1944 Bretton Woods Conference, emphasizes free trade and financial flows, and has as its foundation specialized international economic institutions such as the World Bank (IBRD), the General Agreement on Tariffs and Trade (GATT) and the International Monetary Fund (IMF). A nation's influence in these institutions reflects its role in the global economy. Hence these bodies traditionally have been dominated by the Western developed countries which comprise the Organization for Economic Cooperation and Development (OECD).

The developing countries claim the Bretton Woods system contains basic inequities which perpetuate a state of economic dependence. They have used the North/South dialogue to press for a fundamental restructuring of the system and to call for trade concessions and large increases in aid to the developing countries. The OECD countries in general have resisted radical as opposed to evolutionary change in the global economic system and have emphasized the efficiency and benefits to all of the existing system.

The North-South dialogue grew out of the experience of the developing countries in the 1950's and 60's when they increasingly marshalled their numbers and the equal vote provisions in United Nations organizations to press for political and economic change (e.g., concerns ranging from preferential trade concessions to boycotting South Africa, Rhodesia and Israel). In 1974 at the UN Sixth Special Session the developing countries introduced their demands for a "New International Economic Order" (NIEO) and the dialogue became highly confrontational. Encouraged by the success of OPEC in raising oil prices, the developing countries hoped to use the power of producer cartels to force the industrial countries to agree to the rapid implementation of the NIEO. At that time, the US and several other industrial countries wanted a dialogue with the oil exporting countries. The result was the Paris Conference on International Economic Cooperation (CIEC) which

began in 1975 and was organized outside the UN system. CIEC ended in 1977, having failed to achieve agreement between developing and OECD countries on any significant issues. Beginning in 1979 the developing countries began to press for global negotiations (see below), and in 1980 the Brandt Commission Report, prepared by a number of prominent individuals from developing and developed countries, was published. This report reviewed the broad range of North-South economic issues and made a number of recommendations, some of which are controversial. One of these recommendations was the holding of a "North-South Summit" (see Cancun Summit below).

The North-South distinction between developed and developing countries tends to mask the significant differences within each group, and to overlook the high degree of economic interdependence which exists between developed and developing countries.

The developing countries created the "Group of 77" (currently comprised of 122 developing countries) as a caucus group to represent "South" interests originally within UNCTAD and later in other UN fora where the North-South dialogue takes place. In reality (as discussed in Part I), this is an extremely diverse group with widely divergent development needs and philosophies.

G-77 members range from the poorest developing countries, including the "least developed", through the so-called "middle income" and "newly industrialized" countries to the OPEC nations. The economic philosophies of nations within the G-77 vary as widely as their levels of development. Some members have followed a free market approach and actively encourage foreign trade and private foreign investment, e.g., Korea, Singapore, Ivory Coast. Others rely heavily on socialist or Marxist philosophies, e.g., Cuba, Ethiopia. Most G-77 states are somewhere in between.

The OECD countries are much smaller in number, share similar views concerning maintenance of the existing international system, and generally do not have the extreme differences in per capita income that the G-77 has. Nevertheless, they do differ considerably in their own domestic growth philosophies and in their approaches to third world economic development. Also, the size of their economies and global economic influence range from the very small (e.g., Denmark) to the very large (e.g., the United States).

The Scandinavian countries tend to be supportive of G-77 proposals, and on a per capita basis provide the highest levels of concessional assistance within the OECD membership. The United States, the United Kingdom, and West Germany fall on the other side of the continuum. However, the views of these

latter two countries are tempered by their EC (European Community) affiliation. These countries tend to question more forcefully the practicality of many G-77 proposals, appear to be more protective of existing international economic institutions and provide lower levels of concessional assistance relative to GNP, although the United States continues to be by far the largest OECD donor in absolute terms. During 1981, France and Italy shifted their positions somewhat and became more supportive of G-77 proposals.

The Soviet Union and its communist allies attend many North-South discussions but their participation is perfunctory. Rarely do these nations make positive contributions to the dialogue. Their often stated position regarding North-South matters is that the problems of development are the consequences of capitalism and colonialism; therefore they bear no responsibility for assisting in resolving them.

The multitude and range of issues in North-South relations is great. This is to be expected, given the many aspects of economic relations between countries, and the political and economic diversity within the G-77.

North-South issues range from the very technical to the very broad. There is no clear sense of priority, since G-77 diversity has precluded agreement. Nevertheless, there are two basic categories which encompass most of the issues. These are trade and finance.

Developing countries want improved access for their exports and improved terms of trade. In the related financial area, they wish much larger resource transfers on a more concessional and/or less conditional basis. To achieve these objectives they desire a fundamental restructuring of the existing international trade and world monetary system. The changes envisaged would give these countries preferential treatment in both these areas, and provide them with a much more significant operational role in the international economic system and in the management of key institutions such as the IMF and IBRD, a role which in most cases is not commensurate with their current financial and trade significance in the global economy.

United States Position

The United States recognizes that today the US economy is more than ever interdependent with that of other nations. Promoting economic growth and social progress in the developing world has been and continues to be a major objective of US foreign policy.

Since the Second World War the progress of development has been uneven but nevertheless widespread, and prospects for developing countries, especially the newly industrialized countries, now depend in large measure on the health of the world economy and appropriate domestic development policies. Trade, free market mechanisms and the private sector play key roles in the development process.

Chapter II.B. outlined the importance of the United States in the world economy and as a market for LDC exports. The most important US support for LDC prosperity, therefore, is through the pursuit of domestic economic policies which will reinvigorate the US economy and bring it back to sustained non-inflationary growth. Growth in the United States will provide growing markets for LDC exports, promote the flow of capital and make it easier for the US Government to resist protectionist pressures.

At the same time the United States has reiterated its support for the important role of foreign assistance in the development process, coupled with sound policies in the developing countries and self-help measures (see Chapter II.E.). US spokesmen have stated that the US will continue to provide large quantities of assistance but that a strategy for growth that depends on a massive increase in the transfer of resources from developed to developing countries by itself is unrealistic, particularly given current economic conditions.

The United States is dedicated to finding practical solutions to the difficult problems of economic development, and views the North-South dialogue, conducted bilaterally, regionally and multilaterally, as a means through which the merits of the global economic system can be emphasized and its shortcomings considered and corrected. While the United States recognizes that a dialogue is necessary, it does not believe that the discussion of important North-South issues should be centered in a single multilateral forum such as the United Nations.

The United States wishes to avoid the adversarial, rhetorical and procedural discussions that have characterized much of the North-South debate in recent years. It instead views the situation as one which can potentially benefit both sides. Accordingly, the United States emphasizes mutuality of interests, interdependence and topics (e.g., trade, food and agriculture, energy and investment climate) in which substantive discussions can take place and meaningful progress be achieved.

Developments Concerning Possible Global Negotiations (GNs)

Following the failure of CIEC, the G-77 pushed the UN General Assembly (UNGA) to agree that all future negotiations

relating to the establishment of the New International Economic Order (NIEO) would take place within the UN system. Since that time, the G-77 has been engaged in an effort to establish a central forum at the United Nations in New York for the concurrent negotiation of international economic issues.

In December, 1979, the 34th UNGA adopted by consensus a resolution calling for "a round of global and sustained negotiations on international economic co-operation for development" to be launched at a UNGA Special Session in 1980. The resolution provides for universal UN participation in the simultaneous negotiation of major international economic issues such as "raw materials, energy, trade, development, money and finance." The United States and other industrial countries inserted language stating that the UNGA Committee of the Whole should act as the preparatory committee "to enable the Assembly at its special session in 1980 to decide on an effective and prompt beginning of the global negotiations." This language emphasizes the necessity of working out satisfactory arrangements for GNs before they can begin. The United States joined in the consensus adopting the resolution but we also made it clear in our reservation statement that in our view, "the beginning of these negotiations is subject to satisfactory and mutually acceptable completion of the preparatory process." The basic controversy since the resolution was adopted has involved differing conceptions of GNs, and particularly the relationships between the central forum envisioned by the resolution and the specialized agencies and entities already existing within the UN system, e.g., the IBRD, IMF and GATT. These relationships are not clearly defined in the resolution. The United States is very seriously concerned about protecting the competence, functions and powers of the specialized agencies.

During the spring and summer of 1980, procedures and agenda for GNs were negotitated in the UNGA Committee of the Whole without results. Negotiations on procedures continued during the UNGA Eleventh Special Session. The session closed on September 15, 1980 with the Federal Republic of Germany and the United Kingdom joining the United States in blocking a consensus on procedures because they did not afford adequate protection for the UN specialized agencies. The agenda for GNs was not taken up in the Special Session. Both procedures and agenda were considered in the Plenary of the 35th UNGA Regular Session and actively negotiated in small groups of "Friends of the President" organized by then UNGA President von Wechmar. However, the session closed on December 17, 1980 without agreement. At the end of the session President von Wechmar, in an effort to summarize the negotiations over the past year, presented a text on procedures and agenda as a basis for further discussions. It has been inaccurately stated that agreement was almost reached at that time. However, many of

the participants, including the United States, seriously objected to various parts of both the procedures and agenda.

At the Resumed Session of the UNGA on January 15, 1981, President von Wechmar was authorized to continue informal consultations on GNs and to call meetings where appropriate. In March, the United States informally told President von Wechmar that the new Administration was reviewing its economic policy toward the developing countries, including our position on GNs. At a UNGA Meeting of the Whole on May 5, the United States proposed that the issue of GNs be deferred at least until the 36th UNGA Regular Session and after the economic summits at Ottawa and Cancun. All other participants would have been willing to resume preparations for GNs at that time but it was recognized that this would be pointless without the United States participating.

The declaration issued at the conclusion of the July 19-21 Ottawa Economic Summit did not commit the United States to GNs on G-77 terms. Our joining in the declaration was simply a statement of our ongoing engagement in the dialogue on global economic issues and our willingness to continue this dialogue in appropriate fora, in a process acceptable to all participants, and in circumstances offering the prospect of meaningful progress. On September 14, the last meeting of the 35th UNGA formally deferred GNs to the 36th where it was taken up in the Plenary on November 4.

The matter was also discussed at the October Summit at Cancun (discussed later). As agreed by the participants, there was no declaration following the Summit. However, a summary of the meeting, which does not commit the participants, was issued by the co-chairmen (Canada and Mexico). The summary includes the following paragraph on GNs: "The Heads of State and Government confirmed the desirability of supporting at the United Nations, with a sense of urgency, a consensus to launch global negotiations on a basis to be mutually agreed and in circumstances offering the prospect of meaningful progress. Some countries insisted that the competence of the specialized agencies should not be affected."

The President stated at Cancun that:

-- "It is our view that circumstances offering the prospect of meaningful progress are future talks based upon four essential understandings by the participants."

-- "The talks should have a practical orientation toward identifying, on a case by case basis, specific potential for or obstacles to development which cooperative efforts may enhance or remove. We will suggest an agenda composed of trade liberalization, energy and food resource development, and improvement in the investment climate.

-- "The talks should respect the competence, functions and powers of the specialized international agencies upon which we all depend, with the understanding that the decisions reached by these agencies within respective areas of competence are final. We should not seek to create new institutions.

-- "The general orientation of the talks must be toward sustaining or achieving greater levels of mutually beneficial international growth and development, taking into account domestic economic policies; and

-- "The talks should take place in an atmosphere of cooperative spirit similar to that which has brought us together in Cancun -- rather than one in which views become polarized and chances for agreement are needlessly sacrificed."

The President further stated that "If these understandings are accepted, then the United States would be willing to engage in a new preparatory process to see what may be achieved."

In November 1981, the United States engaged in a series of informal bilateral consultations with governments in their capitals and with delegations to the United Nations in New York to determine whether there was sufficient acceptance of these four essential understandings to make negotiations possible.

The General Assembly adjourned on December 18 without acting on Global Negotiations. Toward the end of November, a draft resolution attributed to the UNGA President which would have launched GNs without prior agreement on agenda and procedures at a UN Conference for Global Negotiations in 1982 was circulated. This draft was carefully reviewed by the United States government on December 8. Three amendments were offered by the United States the next day to bring the proposed text into line with the four understandings of the President's statement at Cancun. Although several developed countries urged the G-77 to accept the US amendments, the G-77 was unable to agree on a united response. The General Assembly decided to defer further consideration of Global Negotiations to a resumed session pending the outcome of informal consultations conducted under the guidance of the UNGA President.

Other Significant Events in 1981

Ottawa Summit

The July 19-21 meeting was the seventh in a series of annual economic summits involving the heads of state of the major Western economic powers. Ottawa was unique in that there

was more discussion of North/South economic issues than at any of the previous summits. Particular emphasis was placed on the importance of an open trading system and the free flow of capital in the developed countries' efforts to assist the developing countries. There was considerable interest among the other participants regarding US views toward the developing countries, in particular concerning the multilateral development banks, global negotiations and US participation at the Cancun Summit. In Ottawa, the President said the United States intends to meet its financial pledges to the IDA and the IBRD, although as a result of budget stringencies the United States will have to phase its contributions over a period of time. The United States also expressed its view that the IBRD, could do more with existing resources to develop energy resources in the third world. At the meeting, the United States indicated it was prepared to enter into preparatory talks on GNs under mutually agreeable terms. The key point of the meeting was that the President made it clear that he is committed to a constructive North-South dialogue and that the United States does not view its relations with the developing countries solely in the context of East-West relations.

UN Conference on New and Renewable Sources of Energy

This conference reached a consensus on August 21, 1981 with the adoption of the "Nairobi Program of Action on the Development and Utilization of New and Renewable Sources of Energy." The Conference was a significant achievement. It was the first time that the world community had taken a serious look at the world energy problem and agreed on the need to carry out an efficient transition from excessive reliance on fossil fuels to a more diversified mix of energy resources. The Conference is reported on in some detail in Section III.A.3. on energy.

UN Conference on Least Developed Countries (LLDCs)

This conference, held in Paris September 1-14, arose from deliberations at UNCTAD V in Manila in 1979. The purpose of the Conference was to "...finalize, adopt and support..." a Substantial New Program of Action for the 1980s, to spell out the specific developmental needs of the least developed countries and propose steps to resolve them.

The original Program of Action drafted by the UNCTAD Secretariat for the Conference stressed external assistance as the key constraint to development for these countries, and made a number of unrealistic and unacceptable aid and trade demands. At the Conference, the OECD countries were successful in achieving a substantial degree of balance in the program of action, including highlighting the importance of domestic economic policy measures and of agriculture, energy and

population sectors in the development process of least developed countries. These moderating revisions notwithstanding, the United States, in joining the consensus to adopt the program of action, made a statement of interpretation on a number of matters such as aid targets, automatic resource transfers, transportation, the IMF and commodities.

The Conference deliberations took place in a relatively non-controversial atmosphere and the general view is that the Conference made a useful contribution to North-South relations just prior to the Cancun Summit.

The United States recognizes the diversity of developing nations and understands that the least developed countries are least able to take advantage of international trade policy actions such as the Multilateral Trade Negotiations (MTN) or Generalized System of Preferences (GSP) or to obtain private market capital or investment flows. Correspondingly, the United States recognizes the importance of concessional assistance flows to the development of these countries. During the 1970s the United States has supported the overall effort to assist the LLDCs and has taken a number of steps to improve the quality of its aid to them and to respond to their specific development problems. These efforts will continue in the 1980s.

Cancun Summit (International Meeting on Cooperation and Development)

On October 21-23, the heads of state from 22 developed and developing countries met in Cancun, Mexico. The United States participated on the understanding that the meeting would be open and informal with no agenda and no communique. The United States viewed the purpose of the meeting as being an exchange of views on problems and opportunities for international economic cooperation and development.

Discussions at the meeting revolved around four principal topics: food security and agricultural development, commodities, trade and industrialization, energy and monetary and financial issues. Of these, the first was most discussed. In addition there was considerable interest in and discussion regarding prospects for global negotiations, particularly US views concerning possible US participation.

In the view of many participants, including the United States, the meeting was highly successful in creating a positive spirit which is expected to continue in on-going international discussions, and which may be translated into real progress.

President Reagan, in his opening statement, outlined the principles around which a US program of action for the developing countries is based:

-- "Stimulating international trade by opening up markets, both within individual countries and among countries;

-- "Tailoring particular development strategies to the specific needs and potential of individual countries and regions;

-- "Guiding our assistance toward the development of self-sustaining productive activities, particularly in food and energy;

-- "Improving the climate for private capital flows, particularly private investment; and

-- "Creating a political atmosphere in which practical solutions can move forward, rather than founder on a reef of misguided policies that restrain and interfere with the international marketplace or foster inflation."

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III

ECONOMIC ASSISTANCE PRIORITIES

III

ECONOMIC ASSISTANCE PRIORITIES

This part states and explains the objectives, emphases, and priorities of the United States in its bilateral economic assistance programs (III.A.) and in its support for multilateral development institutions (III.B.). Chapter III.A. concentrates on US bilateral economic assistance priorities, beginning with a description of the major cross-sectoral emphases. In addition to the stress on appropriate policies of developing countries discussed earlier, these emphases include the importance of the private sector, the development of institutions, and the development, transfer and adaptation of appropriate technology for broad-based productivity improvements in developing countries. The chapter proceeds to outline the problems, US objectives, progress in 1981, and prospects, in the three priority sectors of US development assistance: food and agriculture, energy, and human resources (including population).

Whether provided bilaterally or through multilateral institutions, economic assistance is grounded on three interrelated premises: the diversity of the development experience, the ensuing concentration of concessional assistance on the poorer countries, and the complementarities between multilateral and bilateral assistance.

The 115 countries officially classed as "developing" include four groups, widely different in income, wealth, economic approach, problems and prospects. There is, first, the group of OPEC capital-surplus countries. Obviously, they do not receive, nor do they need, any economic assistance. Instead, their need is for a stable and prosperous market for their oil exports, and a favorable international environment in which to develop their domestic economies and invest their surplus financial assets.

Second, there is the group of "newly-industrialized countries". These nations have living standards and levels of development comparable to what some OECD countries had a short time ago. Their needs for concessional assistance are minimal, and development is best sustained by a strong international economy with an open capital and trading system.

A third group is the "middle income countries", with a per capita income roughly between $700 and $1,500 (in 1979 dollars). These countries have made substantial economic progress, but still suffer widespread poverty and are highly dependent on a narrow range of exports for foreign exchange. Often, these exports are commodities whose prices fluctuate considerably in international markets. These countries

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continue to require some foreign assistance. Particularly important are technical support and manpower training to ensure that their populations are productive and competitive. These countries also need foreign private capital and help in developing credit-worthiness on international capital markets. Of particular significance is continued maintenance of an open international trading system to encourage expanded and diversified exports.

Finally, there is the large group of low income countries, with a per capita income lower than the level established as the cut-off for eligibility for International Development Association (IDA) loans on concessional terms. (See III.B.1. and IV.A.). (Within this group also fall the "least-developed countries", as defined by the United Nations.) It is in these low-income nations that the worst human, social, and economic manifestations of under-development are usually found. It is these countries, as several chapters in Part II showed, that face the most unfavorable economic prospects for the 1980s. Large segments of their populations live at the barest biological subsistence levels; mortality rates are generally high, particularly among infants; basic physical, educational, and social infrastructure is lacking; and their involvement in the international economic system is slight.

The domestic resource base of these countries is very thin as a result of very low incomes. They cannot in the foreseeable future rely to a significant extent on foreign direct investment to fill their need for foreign capital inflow, and they have minimal access to the international capital market. While domestic policy improvements may still yield significant economic gains (especially in agriculture, and with particular reference to some countries in Sub-Sahara Africa), these nations needed in 1981 and will continue to need substantial long-term concessional assistance. It follows inescapably, in times of limited aid resources, that the bulk of concessional aid available from bilateral or multilateral sources should be devoted to countries in this group, and not to higher-income countries. Some concessional assistance, however, will continue to be needed elsewhere to address short-term problems of economic instability in situations where US assistance helps augment other external financial resources or in pursuit of US foreign policy objectives.

The diversity of development problems and issues also highlights the complementarity among different aid instruments, and in particular between multilateral and bilateral assistance. As a general rule, the United States seeks to maintain the balance between these two which is appropriate to the specific circumstances, on the basis of an assessment of the comparative advantage of each - stemming from their nature or specific institutional experience. Bilateral and multilateral assistance complement each other in many important ways. Each

is better suited for achieving certain objectives and the effectiveness of each partly depends on the existence and effectiveness of the other.

Multilateral institutions, especially the development banks, are particularly effective in providing assistance for large-scale projects which require very large amounts of financing. Multilateral institutions also often have a greater ability to influence LDC economic policies, because multilateral assistance is viewed as less politically motivated than bilateral aid. Some multilateral aid organizations, particularly those in the UN system, can play a useful role in responding to the needs of sensitive countries and in acting in politically delicate situations.

The bilateral program can be more effective in addressing particular kinds of development problems and constraints, such as improving agricultural institutions and technology and assisting to reduce population growth. These are areas in which the United States has a comparative advantage because of technical and human expertise, and program experience. Bilateral assistance, of course, is also effective for supporting the development of countries deemed of special importance to the United States.

As a rule, the two types of assistance must complement each other in order to maximize the effectiveness of both. For example, successful transplantation of proven US agricultural extension services may require the concomitant completion of a large agricultural irrigation project financed by the multilateral banks through the funds they can borrow at relatively low cost on world capital markets. And conversely, the benefits from the irrigation project would be much reduced in the absence of the bilateral agricultural extension services.

In 1981, a major assessment of US objectives and participation in the multilateral development banks was carried out. Along with other considerations relevant to US priorities in multilateral assistance, the main findings and conclusions from the assessment are described in Chapter III.B.

Chapter III.A.

BILATERAL ECONOMIC ASSISTANCE PRIORITIES

As shown by the analysis in Part II, the developing countries will continue to face two major challenges over the next several years:

-- how to address short-term balance of payments and financial problems that threaten their economic and political stability;

-- how to reduce poverty, eradicate disease, improve nutrition and, in general, better satisfy the basic needs of the poor majority of their people on a self-sustaining basis so that, in the words of the Foreign Assistance Act, they may "...lead lives of decency, dignity and hope."

The broad objectives of the US bilateral assistance programs are accordingly:

-- to promote stability in friendly countries by assisting them to overcome their financial difficulties, and

-- to help developing countries create the conditions for self-sustaining growth of a kind that permits the poor to participate and to benefit from the growth process.

These two broad objectives are linked: lack of stability undermines long-term progress, and conversely, widespread poverty and economic stagnation breed popular discontent and instability.

The United States has three main bilateral assistance instruments: the Development Assistance (DA) program, the Economic Support Fund (ESF) and the PL 480 program. Each has different strengths in the pursuit of the twin objectives of stability and of progress towards self-sustaining growth. Detailed description of the specific characteristics, size and operation of the individual programs is provided later in Part IV. The purpose of this chapter is: (a) to discuss the major emphases of the Reagan Administration that cut across particular bilateral assistance programs and sectors of concentration; (b) to assess developing country problems, and US assistance policy objectives, priorities and progress in three key development sectors - food and agriculture, energy, and human resources.

To be most effective, these US approaches must be incorporated into a dialogue with the developing countries, in order that the latter's own policies be as conducive to

economic growth and development as possible. These were described in detail in Chapter II.E. In light of the importance of developing countries' policies, the United States endeavors to engage US-assisted countries in a policy dialogue aimed at improving their policy environment and their development prospects. Levels of US assistance to individual countries are themselves affected by a judgment as to whether the policy environment in the recipient country is, or is likely to become, conducive to effective utilization of the assistance.

The nature of the policy dialogue with developing countries frequently depends on the nature of the policy issue, the kind of aid program (ESF, PL 480, or DA), and the US overall foreign policy objectives in individual countries. It is, in any case, important to keep in mind that such policy dialogue partakes of the nature of a diplomatic process, and should not be thought of primarily in terms of "using aid leverage". Policy changes enacted simply as the result of leverage are unlikely to be forecefully implemented by the recipient government and may be short-lived. It is much more likely that lasting policy improvements will be produced by successfully persuading a developing country government of the strength and validity of the economic case for policy reform.

In macroeconomic issues as well as foreign exchange and trade policy, the lead in engaging developing countries in a policy dialogue is usually taken by the IMF and the IBRD. These issues are also discussed in the context of IBRD-led consultative groups and in the Board meeting of the MDBs and the IMF. US concern for such issues is articulated both through its Executive Directors to the MDBs, and in the context of its own bilateral programs. For example, US concern about policies in Guyana led to a recasting of a proposed IDB loan to that country. The bilateral dialogue is often very sensitive and by necessity less publicized. It is unwise and ultimately counterproductive for long-term relations with foreign governments if it appears that a particular policy change by an aid recipient resulted from donor pressure. The US, however, is also concerned with these issues, especially in countries receiving significant amounts of fast-disbursing aid through the ESF or PL 480 programs, which impact directly and quickly on the recipient's balance of payments and level of economic activity.

At the sectoral level, the United States is frequently engaged in detailed discussion of recipient policies which impact on the achievement of development objectives in key sectors, such as agriculture (see III.A.2.). Working through AID missions the US discusses such issues as prices of outputs, prices of inputs such as fertilizers, budget allocation to key sectors, etc. Opportunities also occur at the country level

to discuss policy issues in connection with specific projects whose successful implementation hinges on a general government policy. For example, the long-term viability of an energy generation or distribution project may well depend on the establishment of a rate structure that permits the activity to function without government subsidy.

A fitting illustration of the usefulness of the policy dialogue in the context of US bilateral assistance is the substantial increase in production of wheat in Pakistan, from about 7-1/2 million tons in the mid-1970s to nearly 12 million tons in 1981. This ensued from a major policy reform undertaken by Pakistan, which grew out of consideration of a large loan for fertilizer. The reform allowed much greater play to market forces, by permitting a rise in the wheat price paid to the farmers and opening up the retail distribution system to the private sector. In addition to stimulating production, these reforms also permitted a reduction in the level of fertilizer subsidies paid to the farmers, subsidies which were an increasingly serious drain on the country's public finances.

III.A.1. MAJOR CROSS-SECTORAL EMPHASES

In addition to the perception of the importance of the developing countries' own policies, the US bilateral economic assistance programs embody three major overall emphases. First, the indigenous private sector as well as international private capital can make significant contributions to economic progress in the developing world. Second, long-term development depends on strengthening the institutional capabilities and mobilizing the human resource potential of the developing countries. Third, increases in incomes and output in developing countries also depend greatly on the development and spread of appropriate technologies. These emphases on the private sector, institution building, and technological development are not only important for promoting self-sustaining growth but also reflect areas where the United States possesses a comparative advantage.

The Private Sector in Economic Development

The US heritage of development through private initiative provides the guiding principle for the US approach to economic progress in the developing world and for bilateral assistance programs. As President Reagan stated in his speech in Philadelphia on October 15, 1981, "Free people build free markets that ignite dynamic development for everyone."

The development strategy pursued by each developing country is a unique blend of its cultural, historic, economic and political circumstances. Developing countries gaining their independence in the post World War II era frequently found that markets had not been functioning well. Necessary infrastructure and entrepreneurial traditions and talent may have been weak or absent. LDC governments' desire to accelerate growth also led many to heavy involvement in public investment and government production of goods and services. As discussed in Chapter II.E., rather than try to improve imperfect markets, developing country governments have frequently pre-empted activities which could have been more efficiently undertaken by private firms. Government regulation of domestic and international private enterprise has all too often resulted in disincentives to production and private investment, both local and from abroad. Yet, private enterprise, especially in agriculture (which in many developing countries accounts for the bulk of the national product), continues to be a vital, if sometimes discouraged, force for economic growth.

The development experience of the last two decades suggests that the developing countries that have made the greatest strides towards self-sustaining growth have been the ones that

have relied to a relatively greater extent on market forces for the organization of production and the allocation of resources. These are countries in which government and private enterprise complemented each other well in the pursuit of economic progress for the individual and for the nation as a whole.

There are two significant lessons that can be drawn from the experience of these "success stories."

-- It is important for government policies to provide a setting in which the indigenous private sector as well as private investment from abroad can flourish.

-- International private capital, in the form of both financial flows from international banking institutions and direct investment, can make a significant positive contribution to economic stability and development by providing financial resources, and serving as a vehicle for the transfer of know-how, training, and technology. Indeed in the 1970s, the bulk of foreign financing, especially for middle income developing countries, has come from private sources, not from aid.

The Foreign Assistance Act itself mandates that US bilateral assistance programs under AID encourage private sector activity. Assistance programs, though operated and financed by the US Government, over the years have relied heavily on US corporations, universities and other private entities for the provision of the technical know-how, training and expertise essential to effective assistance to developing countries. These same programs, as well as PL 480, have relied on, and in turn have stimulated, economic activity in US industry and agriculture whose output is shipped abroad as part of US programs. It is estimated that in FY 1981, close to three-fourths of all US bilateral economic assistance was returned in the form of purchases of goods and services from the US private sector. The Trade and Development Program (see Chapter IV.E.), though modest in size, has also stimulated significant additional US exports to developing countries. Through the Housing Investment Guaranty program, AID has tapped the resources of the private sector (US Savings and Loans Associations) to provide housing assistance to a large number of developing countries. AID has also worked with the private voluntary organizations to assist them in their varied contributions to the development process.

In promoting development, bilateral assistance programs have focused heavily on agriculture, which, as noted earlier, comprises the bulk of the private sector in developing countries - especially the poorer ones in which US assistance is concentrated. Thus, the AID assistance programs have an extensive tradition of utilizing the resources of the US

private sector as well as strengthening the private sector in the developing countries themselves.

Building on this tradition, and in addition to the activities already in place, the US bilateral assistance programs in 1981 placed an even greater emphasis on strengthening the role of the private sector in development. The new emphasis goes beyond private involvement at the implementation stage, but seeks a partnership of government and the private sector in the total development process.

The key elements of the new private sector emphasis are the following:

-- encouragement of recipient-country policies that create the environment in which private enterprise can flourish;

-- leveraging of relatively small amounts of public sector funds to attract greater amounts of private sector resources;

-- using AID project activities more creatively to help support projects developed by both the indigenous and the US private sectors; and

-- strengthening of Trade and Development program to make it a more effective instrument in stimulating US exports and in promoting development in critical sectors such as energy.

In order to provide a better focus for the organization, implementation and coordination of the new private sector initiatives, AID has established a new Bureau for Private Enterprise.

AID has also identified ten developing countries for an initial effort in this area. (Costa Rica, Egypt, Indonesia, Ivory Coast, Jamaica, Kenya, Pakistan, Sri Lanka, Thailand, and Zimbabwe.) These were chosen because they have a private sector recognized and supported by the host government, because they are strategically and commercially important to the United States, and because the United States already has a presence there in the form of an AID mission.

Reconnaissance missions are being sent to these ten countries, with a threefold purpose:

-- to determine whether the country has an active and innovative private sector which wishes to expand or diversify investments in job-creating enterprises;

-- to determine whether the government has created the climate and infrastructure in terms of policies, procedures and

financial markets to support expanded private sector investments;

-- to identify key opportunities for private sector investments that are developmentally oriented and for which AID could act as facilitator.

AID's subsequent role in developing further these key private investment opportunities might go, depending on circumstances, from simply bringing the parties together to financing pre-feasibility studies and in some cases to participating in co-financing arrangements -- directly, or through financial intermediaries.

Institutional Capacity Development

The development of viable institutions, informal as well as formal, private as well as public, is essential to the success of any development effort. Institutions involve organized relationships among people, that define their socio-economic environment. Development institutions sustain specific development activities by incorporating in those activities the basic values and practices of the population, as well as the technology and know-how essential to organize production or raise productivity.

When specific relationships, formal or informal, are accepted and supported within a society, they become "institutionalized." An organization becomes a development institution only when its services become essential to the continuing development of its social environment; an organization that survives only as long as it is supported by outside funds is not institutionalized. Formal institutions include organizations such as agricultural extension systems, banks and other financial institutions, technology centers, government agencies and business associations.

Effective development institutions enhance a country's ability to marshal its own human and other resources for development, help individuals gain access to the skills and the services needed to increase their productivity and income, and increase the country's absorptive capacity and the effectiveness of external assistance.

Development experience in many countries and sectors suggests that only when significant institutional development has occurred is it possible to raise productivity or provide services in a sustained way. For example, raising agricultural production hinges critically on the establishment of a series of institutions ranging from those involved in technological development of new seed varieties or more effective fertilizer

to training, extension, credit, crop insurance, etc. Insufficient development of such institutions presents at this time a serious bottleneck to increasing agricultural production in Africa.

AID has an important tradition in helping to create and strengthen institutional capacity throughout the developing world. The new emphasis in AID programs implies a shift in the mix of development assistance activities in favor of institution-building programs rather than programs that simply finance ongoing activities.

Institution-building activities include training to upgrade technical and managerial skills; technical assistance to establish or refine organizational objectives and structures, to streamline staffing procedures, and to build in appropriate incentives; capital assistance and funds, when appropriate, to establish needed facilities and physical infrastructure.

It is important to note that this shift in aid emphasis makes significant demands on both donor and recipient countries. The recipient must assure that the institutions, once established with outside assistance, eventually become self-sustaining; further, that the institutions involve the broadest possible participation of all those individuals and groups essential to their success, especially the recipients of their services. For example, an agricultural extension service system limited to a few large farmers is not likely to have a significant impact on raising production and productivity throughout the agriculture sector. On the donor side, the shift in emphasis towards institution building requires a longer-term commitment. Creating and strengthening the institutional capacity of a developing country is a long-term process. It cannot be turned on and off without major costs and inefficiencies.

Technical Development, Transfer, Adaptation and Extension

Experience has taught that, for dynamic economic growth, it is crucial that a country have the indigenous capacity both to develop and apply a continuing stream of innovations designed to increase productivity, employment and incomes, and also to evaluate and adapt technologies transferred from industrialized countries.

Developed countries, and especially the United States, generally possess the institutional and human infrastructure to generate major technological breakthroughs that are critical to increasing productivity and output in many fields. Building indigenous capacities in developing countries to develop and adapt technology, however, is important because few tech-

nological breakthroughs in the developed world can be readily adopted and efficiently applied under vastly different developing country conditions. Among other reasons, the technologies of the developed world are frequently too large-scale or capital-intensive to suit the economic environment of developing countries. Thus, for example, there is a need for the development of appropriate technology that maximizes the use of labor -- the relatively most abundant factor of production in developing countries. Such technologies make the greatest contribution to promoting employment and thus raise the incomes of the broad majority of the poor in third world countries.

AID has also been involved in the past in programs aimed at strengthening the technological capabilities of developing countries and in encouraging technology transfers and diffusion. The new emphasis in this area includes, as a major new dimension, the expansion of research and development in all three priority sectors of AID concentration -- agriculture, energy, human resources development -- through cooperative efforts between US and developing-country scientists. These efforts will be undertaken in the context of strengthening the indigenous institutional capacities in developing countries. Examples of innovative research activities include:

-- new methods of plant improvement to develop crops that tolerate adverse soils and climatic conditions, insects, and diseases;

-- research to increase the efficiency of using irrigation water;

-- systems for the production of several crops per year in the humid tropics; and

-- methods of human and animal disease control to remove such serious problems as the tsetse fly in Africa, which bars agricultural production on vast areas of potentially productive lands.

Transferring, adapting, and disseminating technologies in the agricultural and agribusiness fields will account for a larger share of development assistance resources. The farm-systems approach to providing assistance to farmers emphasizes the integration between laboratory research, farm-level research and the public extension system linking the farmer to the laboratory.

Market mechanisms play a major role in the creation, adaptation, and dissemination of technologies. AID intends to strengthen its efforts in support of indigenous producers to create and adapt suitable tools and equipment. Increased

collaborative arrangements between US and developing country businesses, stimulated by conferences, trade fairs and the like, frequently result in increased flows of useful technologies to developing countries.

AID remains committed to the effort to infuse considerations of appropriate technology in all its programs, in order to insure that the adoption of new technologies generates employment, reduces recurrent costs and maintenance problems, and insures sustainability. These considerations are important in all of the Agency's activities, ranging from agriculture and energy through small industries, labor intensive construction methods, and service delivery systems.

To implement its new technology thrust in all sectors, AID has reorganized its programs and has created a new Bureau for Science and Technology. One of the early efforts of the Bureau has been to explore with US universities possibilities for more extensive and systematic collaboration, in order to bring the knowledge and expertise of the US scientific community to bear on the problems of development.

III.A.2. FOOD AND AGRICULTURE

Current Assessment of the Situation

Adequate nutrition for the poor in developing countries still remains one of the major goals to be pursued in the 1980's. Improved nutrition is vital to human development, and increased agricultural production is essential to raising the incomes as well as the diets of the poor. While the task is a difficult one and necessarily long-term, there is considerable scope for accelerating food production in developing countries through yield-increasing and cost-reducing technologies, as well as acreage expansion.

Experience over the last three decades also shows that dynamic agricultural growth is in most countries a necessary, though not sufficient, condition for broadly based overall economic growth that permits the conquest of hunger and sustained improvement in per capita living standards. The United States is continuing to sustain the efforts of donors and the international community to help developing countries achieve these goals.

While major responsibility for mobilizing resources for agricultural growth lies with the developing countries themselves, external resources for agricultural development provide important inputs which can assist the developing countries in meeting their food needs. As in past years, lending in support of agriculture and rural development in 1981 continued to be a major component of assistance, with roughly 25 percent of OECD countries' official development assistance (ODA) allocated to these sectors. Resources from both OECD and OPEC countries provided to food and agriculture projects in the developing world were thus estimated to be about $7 billion in 1979. Recent World Bank reports and budget estimates on US bilateral assistance indicate that within these sectors, substantial funds are going into the expansion of infrastructure for agricultural production and marketing. For example, irrigation projects accounted for 38 percent of the World Bank agricultural sector lending in FY 1980. US bilateral support for infrastructure was roughly 15 percent of its agriculture, rural development, and nutrition assistance in FY 1980. Other yield-increasing and cost-reducing measures are being identified in agricultural research efforts and extended through improved service delivery mechanisms, particularly extension and credit systems. Training and institution-building are important complementary emphases.

Agriculture has also received greater emphasis in recent thinking and policy dialogue on development. The summit at

Cancun in October 1981, provided an opportunity for heads of state to exchange views on a range of topics. One that struck a responsive chord among leaders of developed and developing nations alike was the problem of agricultural growth. As President Reagan reported upon his return, the Summit participants "dealt with pragmatic solutions to the problems of growth, efforts to improve food security and agricultural development. The 1979 World Development Report stressed that agricultural success generates domestic demand for industrial products, supplies inexpensive food to industrial workers and raw materials for agro-processing, earns foreign exchange to finance imports of capital and intermediate goods for industry, and encourages labor-intensive industries in small towns and villages. When the fact that the majority of poor people live in rural areas is also taken into account, the importance of a continued focus on agricultural growth and rural development is confirmed.

The World Situation

Globally, food production grew marginally faster than population in the 1970s and in 1980. Consumption per person has been increasing in most parts of the developing world, with the exception of parts of Asia, and of sub-Saharan Africa, where food production has actually declined. However, global food supplies are not completely secure. Persistent market instability and the potential problems faced by poorer people in developing countries when food prices rise continue to be of concern. Even with expanding agricultural production, distribution systems in some countries are so inadequate, or purchasing power of those who need to buy food is so constrained, that food security for all consumers is not assured.

Still, according to World Bank analysts, one outstanding success of the 1970s has probably been the improved productivity of small farmers. Their extra output has been key to impressive growth in such countries as India, Indonesia, and Malaysia. Another area of success has been in expansion of irrigation infrastructure. In the low income countries, the irrigated area has been expanded from 41 million hectares in the early 1960s to nearly 60 million hectares in the late 1970s. The benefits of increased irrigation and storage capacity are most obvious at times of potential crisis. The 1979 drought in India, which reduced foodgrain production and stock reserves 17 percent below the previous year's record level, was as severe as in 1966. But in 1966, famine was widespread and food prices rose 30 percent, despite over ten million tons of foodgrain imports. In dramatic contrast, 1980 saw no widespread famine. Foodgrain prices rose by only some 17 percent, causing less hardship in rural areas than had occurred in 1966. This can be attributed in part to action taken by the Indian Government during the 1970s. In that

period they adopted and actively pursued a multidimensional policy designed to enhance food security. The measures taken included raising price incentives to the farmer, the substantial enlargement of strategically located government storage facilities throughout the country, the establishment of higher stock targets, the operation of an active domestic procurement policy in support of targets, and a willingness to import grains when necessary to maintain targeted stock levels and public food distribution programs.

Regional Assessment

Asia: Performance in the agricultural sector was generally satisfactory in the continent during 1980. The improvement was largely explained by the recovery from below-normal production levels in 1979, particularly in Bangladesh, India, Pakistan, and Thailand, partly as a result of favorable weather conditions. However, better availability of inputs and greater emphasis on expanding and improving irrigation facilities were also important factors.

The overall improved performance of the agricultural sector in 1980 was due to the substantially higher output of food-grains, mainly rice. Virtually the entire increase in world production of rice during 1980 was accounted for by Asia, which produces about 50 percent of the world rice output. The major exceptions were Taiwan, the Republic of Korea, and Nepal, where agricultural production declined due to unfavorable weather.

However, increased population pressures and areas of continued low productivity indicate that the Asian food supply-demand situation is still a serious one. Growth rates are fluctuating and still low, there is a dependency on imported energy, and institutional and policy rigidities are of some concern.

Africa: In Africa, the countries lying to the north of the Sahara continued to experience dry weather in 1980. Soil moisture in most areas, however, was expected to be adequate for almost normal yields, except in Morocco. Below the Sahara, many countries face an uncertain outlook. Sub-Sahara Africa appears to be in a critical situation, where 26 countries, with a total population of some 150 million, are currently reporting food shortages. Drought and dry weather in early 1981 caused agricultural problems in several East African countries. In 1981, Southern Africa crop production will most likely fall below trend in Angola, Mozambique and Madagascar, but approach or exceed trend in Malawi.

Latin America: The value added in agriculture in 1979 in Latin America increased 2.9 percent over 1978 in terms of value added. While this growth was below the average achieved over

the past two decades, it did represent a slight increase over the slow growth rate which prevailed in earlier years.

Production indices of the UN Food and Agriculture Organization (FAO) show that total agricultural output in Latin America was 33 percent higher at the end of the 1970s than it was at the beginning. Food production grew at a more rapid rate than all agricultural production, with increases of 35 percent over the period.

However, agricultural planning in Latin America for the 1980s must take careful account of the growing urbanization of the region's population. One of the principal consequences of this farm-to-city movement is that the region's expanding demand for food and agricultural raw materials will be met with a farm labor force, in number and probably also in skill, which is declining as a proportion of total rural population. Thus, the implications of this for the choice of agricultural techniques and for the productivity of agricultural labor need to be carefully considered. Another implication of the urbanization process is that an increasingly greater proportion of total farm output must move through increasingly complex transportation, processing, and marketing channels before reaching the consumer. To meet the growth in demand, greater attention will have to be paid to increasing the productivity of the land through institutional reforms, appropriate incentives, and improvements in production technology.

US Policy Objectives

The overall policy goal of US bilateral economic assistance is to stimulate broadly-based, self-sustaining economic growth in developing countries which promotes international peace and stability, and assists people to conquer poverty, hunger, illness and ignorance. The policy objectives of the US food and agriculture assistance program consist of the following:

-- National self-reliance in food production;

-- Food security for the entire population;

-- Contribute to overall broadly-based economic growth.

These broad objectives entail two major sub-objectives, namely: (1) increased food availability, and (2) improved food consumption. This will involve in most countries increased agricultural production, with appropriate attention to food production; greater efficiency in marketing and distribution; expanded productive employment and incomes of men and women who lack purchasing power to obtain adequate food; incorporation of

nutritional considerations into production, marketing health and education policies and programs; and effective direct distribution of food from domestic or external sources to those facing severe malnutrition and temporary food shortages.

Food self-reliance does not imply that the potential for either agricultural imports or production of agricultural commodities for export should be ignored. The United States will support a balanced approach that considers economically viable expansion of agricultural production, including for export where comparative advantage exists, and where the efficiency, equity, food consumption and nutritional implications of export expansion are also considered.

AID will emphasize four strategic, interrelated elements to accomplish the food and agricultural development objectives:

1. improve country policies to remove constraints to food production, marketing and consumption;

2. develop human resources and institutional capabilities, especially to generate, adapt and apply improved science and technology for food and agricultural development;

3. expand the role of developing-country private sectors in agricultural and rural development, and the complementary role of the US private sector in assisting this expansion;

4. employ all available assistance instruments in an integrated manner, including provision of PL 480 food aid in a way that contributes to the other three strategy elements as well as meeting food security and nutritional needs.

Each of these elements is intended to increase the effectiveness with which US economic assistance resources are employed in helping LDCs introduce innovations in agricultural production and distribution. While the mix of these elements will vary according to the differing needs and problems among countries, the achievement of lasting food security requires greater attention to each of them in most developing countries.

The experience of the last 30 years has shown that carefully planned and administered economic assistance can, when combined with the fundamental efforts that a government and its people must themselves undertake, establish a dynamic, self-sustaining food and agriculture system. US assistance in the form of scientific and management expertise, and food and financial aid, has made critical contributions to the creation of such systems in South Korea, Brazil and Taiwan and to emerging self-reliance in countries such as India, Thailand and the Philippines.

The United States will make maximum use of its technical competence in identifying and solving problems in food and agriculture. AID, other elements of the US Government, such as the Department of Agriculture, cooperating universities, and private sector organizations are prepared to make a long-term commitment to help similarly committed countries make the requisite policy and resource investments.

In pursuing this strategy, AID will encourage countries to promote participation in food and agricultural development by the large majority of rural producers and workers, men and women, through:

-- broadened access to production incentives and resources, including land and water, as well as opportunity to take advantage of education and training and other productive services;

-- increased productivity, employment and incomes;

-- expanded involvement in making policy and program decisions that affect their productivity and well-being.

The strategy also includes a special concern for effectively increasing the productivity, incomes and market participation of small producers. These producers comprise the great majority of rural economic units in most countries and are thus important for both increased food production and consumption. Furthermore, the demand for goods and services by the bulk of small farmers and their families who participate in market sales and purchases may constitute an important stimulus to off-farm rural enterprise and the generation of employment opportunities for landless laborers and for families engaged primarily in subsistence agriculture.

Progress with US Bilateral Assistance Toward Meeting Objectives

The development assistance program of AID continues to emphasize agriculture, with roughly 50 percent of total developmental assistance going to support agricultural activities.

In order to increase food production sufficiently to make an impact on hunger and malnutrition, a substantial increase in investment in the agricultural sector of developing countries must take place, coupled with required policy and institutional reforms. In FY 1980 bilateral development assistance allocated for food and agriculture amounted to over $687 million. In addition, Economic Support Funds (ESF) accounted for an additional $229 million. In FY 1981, AID development assistance slated for food and agriculture was about $715 million.

Of the amount obligated, 41 percent went to Asia, to help meet the goal of a four percent annual increase in food production.

US bilateral agriculture assistance programs have continued to aim at increasing food production and productive rural employment. The focus has been on raising the productivity of the small farmer, building developing country capacity to pursue agricultural research and stimulating productive enterprises that generate employment and purchasing power.

Some of the projects for which the United States has provided support through the Agency for International Development are:

-- The Agricultural Development Support Project in the Yemen Arab Republic. AID provides $38 million in grant funds to a consortium of 11 US land grant colleges to support a long-term commitment to develop basic agricultural research, training, and extension institutions; support the management and conservation of land and water resources; introduce modern farm management practices; and build a group of trained agricultural workers for the public and private sectors. This project is being coordinated with the activities of other donors, particularly the World Bank, which is financing the construction of agricultural education and research facilities.

-- The Seed Development Project in Thailand provides up to $3.7 million in loans to farmers for the development of high quality seeds to grow rice, corn, soybeans, mung beans, peanuts, and sorghum. Building on research previously done by the Royal Thai Department of Agriculture, this project provides the critical link between the plant breeder and the small farmer. The integrated program includes seed multiplication by contract farmers; testing, drying, cleaning, treating and packaging of the seeds by seed processing centers of the department of Agriculture Extension; and distributing these seeds through a variety of programs under the Royal Thai Government. The project has encouraged involvement of the private sector, and three private Thai companies have entered the seed production and distribution business.

-- The On-Farm Grain Storage Project initiated in Kenya for FY 1981 provides $7.8 million to help reduce grain losses due to birds, insects, molds, and rodents. These losses are estimated at 16 percent of production (equivalent to two-thirds of Kenya's grain import requirements), and can be reduced substantially through measures applicable to farm plots producing as little as four bags (360 Kg.) of maize per season. These techniques include sun-drying, proper use of pesticides, and better designed storage cribs. The project will adapt existing on-farm

grain-drying and storage technology in a major grain-producing area of the country, strengthen the extension and education systems to support the teaching of the applicable technology, and establish a government capacity to monitor and evaluate grain storage.

These projects exemplify a few of the more than 1000 projects in agriculture, rural development and nutrition with which AID is currently involved.

PL 480 food aid, as in the past, continues to play an important role in US bilateral assistance aimed at alleviating hunger. The United States is placing considerably more emphasis than in the past on using PL 480 food aid in ways that support, in an integrated fashion with other forms of development assistance, the agricultural development policy and program efforts of recipient countries, and do not discourage local production. In 1979, the United States provided 6.0 million tons of grain through the PL 480 program. Food aid commitments reached 6.2 million tons in 1980, of which 5.9 million were grain. In addition to providing assistance to meet serious food gaps resulting from emergencies, food aid was used to support a number of project activities in the area of agriculture and rural development. Under PL 480 Title II and US contributions to the World Food Program (WFP), nutritionally disadvantaged and low-income groups received direct food assistance through school feedings, maternal and children programs, food for work and other activities.

Concessional food sales under Title I have added to countries' total food supplies and generated domestic resources from sales proceeds for investment in agriculture at the same time. Under PL 480 Title III, eligible developing countries are encouraged to increase domestic resource allocations to finance development projects and programs which help to improve the living conditions of the poor. (See also section IV.C.3.)

Prospects for the Near Term

AID's forecast of food and agriculture assistance indicates a slight increase from $715 million in FY 1981 to approximately $750 million in FY 1982. In addition, the amount of ESF going to international food and agriculture assistance shows a projected increase from $229 million in FY 1981 to $398 million in FY 1982. The slight increase in development assistance in FY 1982 is thus augmented by the increase in ESF allocations; overall, the growth in assistance will be positive but moderate. The FY 1982 budget strikes a reasonable balance between the need to limit the growth of federal spending on the one hand and the need to provide a level of assistance adequate

to meet our foreign policy objectives and help alleviate hunger and malnutrition on the other.

In 1980 the United States provided more than 60 percent of global food aid. Food aid commitments reached 6.2 million tons grain-equivalent in 1980, but estimates for FY 1981 and FY 1982 stand at 5.5 million tons and 5.0 million tons, respectively. Thus, the future volume donated by the United States will fall well below the levels reported as recently as 1979-80.

Since agriculture is such an important component of the lending programs of multilateral institutions, the smaller US financial commitments may presage lower levels of multilateral agricultural sector lending in the coming years. For it is evident, in looking at the multilateral allocations for 1980 and 1981, that future lending programs in agriculture, rural development and nutrition may be affected by resource declines.

In 1980, as in years past, IBRD lending in support of agriculture and rural development absorbed the largest share of commitments, $3.5 billion (30 percent of total). The International Development Association (IDA), the part of the Bank Group providing loans on concessional terms to the poorest developing countries, financed $2.0 billion in agriculture and rural development projects in 1980. These included project activities in area development, agricultural credit, forestry, research and extension, irrigation and flood control, fisheries, and livestock.

Regional development banks continued to play an active role in agriculture sector lending. As in past years, loans in support of agriculture claimed a 15 percent share of total lending in FY 1980 of $2.7 billion from the Inter-American Development Bank (IDB). Major IDB assistance for transportation and power infrastructure also provided important support to agriculture and rural development. In 1980, the Asian Development Bank (ADB) continued to increase its volume of lending to the agriculture and agro-industry sector (which includes irrigation and rural development, fisheries, livestock, agricultural credit and support services, forestry, fertilizer, and agro-processing). During the year, this sector received loans amounting to $468 million for 22 new agricultural projects, compared with $412 million for 21 new projects in 1979. Cumulative lending to this sector at the end of 1980 amounted to $2.3 billion for 152 projects. The agriculture sector was the primary beneficiary of African Development Bank Group lending in 1980, receiving $156.5 million (27 percent), compared with $117.6 million (34 percent) in 1979. The emphasis on agriculture is consistent with the ADBG's policy of promoting agriculture and rural development in order to assist countries in achieving self-sufficiency in food production. Cumulative lending in this sector increased from

$478.6 million in 1979 to $635.0 million in 1980, a nominal rise of 32.7 percent.

The International Fund for Agricultural Development (IFAD) has continued to focus its attention on the smaller farmer and the improvement of the conditions of the rural poor, and has funded projects in the area of integrated rural development, agricultural development, irrigation and credit. The Fund and its activities in 1981 are described in some detail in section IV.B.2.

Overall, the prospects for sustained levels of agricultural assistance and lending in 1982 are somewhat uncertain. This comes at a time when the low reserves of early 1981 have left the world dependent on the output of future crops, particularly those harvests starting mid-1981 and extending through early 1982. If production over the following 8 to 10 months recovers to the trend level of the last two decades, the supply of cereal products would increase enough to bring about a significant gain in per capita production. Any significant rebuilding of stocks will subsequently depend on favorable harvests in the fall of 1982 and the spring of 1983. If production stays two to three percent below trend again in 1981 and early 1982, supplies will become tight and high prices would result in most parts of the world. This would most likely lead to difficult adjustments in the most price-responsive areas of the world, particularly the livestock sector of the United States and the food-importing sectors of low-income food-deficit countries.

Global Status and Outlook

Development depends upon the availability of energy at affordable prices to meet minimal industrial and household needs. Energy is essential to the process of modernization, especially to the increase of productivity. Sharp price hikes in petroleum constitute a serious impediment to increased production, particularly where expansion of production is dependent upon petroleum-based transportation, irrigation systems and chemical fertilizers. National development functions are impeded by recent increased costs of energy and for some forms of energy such as fuelwood, its diminishing availability. Not only has development stagnated in a number of low-income countries, but in some instances economic problems caused by energy costs threaten political stability at national and regional levels.

Energy prices in 1981, principally oil, levelled off from the sharp increases of 1979 and 1980. Nevertheless, the price and magnitude of worldwide oil imports are forcing developing countries to seek permanent adjustments to more expensive energy supplies.

As they industrialize and urbanize, developing countries face an energy-intensive growth phase similar to that experienced in western countries prior to World War II. This means that, on the average, every percentage point increase in GDP will require a 1.3 percent increase in energy supplied. At present, developing countries account for only about 14 percent of the world's use of commercial energy; however, the energy requirements of these countries are expected to rise to 18 percent of the world total by 1990.

During this decade oil-importing developing countries will consume a greater share of world oil, rising by 1990 from 15 to 20 percent or 8 million barrels a day of oil equivalent (mbdoe), according to the World Bank. More than two-thirds of the 94 oil-importing developing countries depend on imports for more than three-fourths of their commercial energy. The total cost is running $74 billion annually, about 20 percent of total export earnings, 5.3 percent of GDP, and three times the total of all economic assistance to these countries.

Many developing countries face a second energy challenge - finding alternatives to heavy dependence upon traditional fuels such as fuel-wood and human and animal waste. Over two billion people depend upon these energy resources which in many poor countries comprise 85 to 90 percent of rural energy requirements. Increasing pressure upon fuelwood for energy has

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contributed to deforestations, devegetation, declining water tables, soil erosion and silting, desertification and flooding. One estimate is that annual loss of forest is running 25 to 30 million acres per year - equivalent to an area the size of California. Burning dung and vegetation as a substitute for firewood and charcoal not only produces health risks, but it deprives the soil of fertilizer, reducing productivity by an estimated 20 million tons of grain each year or enough to feed 100 million people.

The dual challenges -- the need to control the growth of oil imports and the necessity of slowing or reversing the deterioration of the traditional energy sector -- have impelled LDCs to place a new emphasis upon formulating energy policies and implementing new energy programs. These governments, with new assistance from bilateral and multilateral donors, are actively reviewing energy pricing and production policies, reassessing their energy resources, and investing, as well as encouraging investment, in energy projects and technologies for the future. Donor support is complemented by direct investment from the private sector both for energy development and improvements in the efficiency of present plant and equipment responding to market opportunities.

Oil and Gas

Over half of the world's petroleum is produced in developing countries, most of which are major exporters and members of OPEC. However, a growing number of oil-importing developing countries produce petroleum for domestic consumption although proven reserves in these states account for only about two percent of known global reserves. Oil-importing developing countries pumped 1.5 million barrels per day in 1980, with Brazil, India, Argentina, Turkey, Colombia and Syria among the larger producers.

Over the past 25 years, far less oil exploration has occurred in the developing countries that import oil than in any other area. As can be expected, most exploration was concentrated in major oil-producing areas. In fact, more "wildcat" exploration wells were sunk in the United States alone than in all oil-importing developing countries. Past exploration was concentrated in developed countries and the major oil exporting nations for several reasons. In many cases geophysical and geological prospects were more attractive. However, political factors were especially important: terms and conditions for exploration had been established and proved viable; host governments were willing to accept involvement of the foreign private sector in the petroleum industry.

The situation changed quite suddenly in the last decade with the surge of oil price increases of 1973 and the second round of steep price hikes of 1979-80. Petroleum exploration in

oil-importing LDCs increased dramatically. While higher oil prices dealt a heavy blow to the balance of payments of oil-importing LDCs, at the same time previously marginal deposits became attractive and exploration was encouraged in high cost frontier and offshore regions. Also, many LDCs are updating and expanding their geophysical data. In reviewing laws and conditions governing exploration and development of petroleum by private firms, many countries concluded that mutually beneficial terms could stimulate new exploratory activity.

Recent discoveries of commercial deposits of oil have been announced in the Ivory Coast, Sudan, Guatemala and Benin while active exploratory activities are underway in many areas among which are the west coast of Africa, South America, India and Pakistan. Continued development of oil reservoirs in oil-importing LDCs will require large capital investments, but in most cases where the geophysical data is promising, private capital and technical expertise appears to be available. Multilateral lending institutions, particularly the World Bank, as well as bilateral donors also have increased support for oil and gas exploration and subsequent development requirements. Pre-development loans and innovative methods to reduce non-commercial risks to private sector investment on the part of the World Bank already have had an impact in several countries.

Simultaneously, high prices for imported fossil fuels have prompted a reappraisal of the natural gas potential in developing countries. Although natural gas is one of the cheapest energy options available to developing countries, its use has been limited because sources often are not close to markets and domestic markets rarely are large enough to absorb costs of pipelines and distribution facilities. As late as 1978, 80 percent of the gas produced in association with crude oil was flared in Africa and 58 percent in Asia and the Middle East. Now, gas-producing countries have become conscious of wasting associated gas and are taking steps either to reinject the gas or process it for extraction of liquified petroleum gas (LPG) and natural gas liquids (NGL). While many developing countries have not developed an indigenous gas industry because markets are too small to justify large infrastructure investment, high cost oil is changing the economics of such outlays, at least in part. Countries which exploit their natural gas use it mainly for power generation, fertilizer production and industrial process heat which absorbs a volume sufficient to justify pipeline construction. For example, with financing from private investors, commercial banks and the World Bank, Thailand has built a natural gas pipeline to Bangkok from an offshore gas field and by late 1981 was delivering natural gas to produce electricity and cement. One estimate is that use of natural gas in LDCs, with appropriate infrastructure and commercialization policies, could equal 10 to 12 percent of total LDC commercial energy production by 1990.

Coal

The world's reserves of economically recoverable coal have been estimated at 636 billion metric tons, roughly five times the size of proven oil reserves. Coal production in developing countries increased from 2.4 mbdoe in 1970 to 3.6 mbdoe in 1980 (9.2 percent of world total), an increase of 50 percent over the decade. Although 29 developing countries produce coal, 90 percent is mined by nine large producers - Brazil, Colombia, India, Korea, Mexico, Romania, Turkey, Vietnam, and Yugoslavia.

Barriers to the expansion of coal production in developing countries include lack of detailed, high-quality geological data, transportation bottlenecks, limited technical know-how and demand uncertainties, both domestic and foreign. Where accessible coal deposits of reasonable quality exist, domestic markets are often limited. In most LDCs, coal is used only for central station electric power generation and cement production, although methods are under study for briquetting coal to increase its convenience for household use.

Despite these drawbacks, at current petroleum prices coal can be an attractive alternative for certain LDC applications. The Colombia Government, in partnership with the private sector, is beginning to exploit a major coal deposit. Other oil-importing LDCs are analyzing the feasibility of replacing oil with either indigenous or imported coal for power generation. While at least one-third of LDCs possess proven recoverable reserves, the extensive infrastructure investment means not only heavy capital requirements, but often a 10-year delay between opening a mine and full production. The World Coal Study, for example, indicated that a doubling of world output in 20 years would require $150-$300 billion for coal mines and ground transport plus $25 to $50 billion for ports and ships. Where large deposits exist, LDC development of coal for export earnings can be an option worth considering, keeping in mind that global markets are competitive and dominated by well-established and efficient low-cost exporters.

Although little quantitative study has been done on the demand side, the World Bank estimates that coal consumption in LDCs will expand from 3.6 mbdoe in 1980 to 5.9 in 1990, most domestically-produced. While over 50 LDCs use some coal, only 15 consume more than one million tons a year.

Hydropower

Hydroelectric power, which presently accounts for 41 percent of the power generating capacity of LDCs, can be greatly expanded since only 10 percent of its potential has been developed. Asia has 28 percent of the world's potential, South America, 20 percent, and Africa, 16 percent. With only a fourth

of Asia's potential, Europe produces nearly twice as much power or 60 percent of its potential. Asia has developed 12 percent of its potential, Latin America, 6 percent, and Africa, 5 percent, with half of the latter produced from just three dams -- Kariba in East Africa, Aswan on the Nile and Akosombo in Ghana.

The economics of hydropower have become significantly more attractive with the rapid price escalation in fossil fuels. The feasibility of many hydropower projects is limited by the high cost and scarcities of capital, particularly foreign exchange, since required initial capital outlays are immense. Lack of basic hydrological studies sometimes inhibits waterpower development as well. Despite these barriers, the World Bank forecasts that approximately 100 gigawatts of hydroelectric capacity will be added in about 60 developing countries during this decade.

Small hydropower projects (defined as under one megawatt capacity) comprise five to ten percent of the world's total waterpower resources. Mini-hydro plants can be used both to replace energy supplied by fuel as well as to supply a new source of energy to areas previously without electricity. One impediment to greater exploitation of small waterpower resources are LDC pricing policies applied to competing forms of energy -- kerosene and diesel for lighting, and central grid electric power.

Nuclear Energy

Nuclear power reactors are providing in 1981 only about one percent of the world's commercial energy or eight percent of all electricity produced. In developing countries currently installed nuclear capacity accounts for less than two percent of their electricity resources.

Developing countries have been at a relative disadvantage in turning to nuclear power because of the scarcity of capital, skilled labor, management and technical know-how. In the larger of the developing countries, there are probably some opportunities for increased reliance on nuclear energy on an economically efficient basis. But market size limitations in most developing countries, combined with the large-scale characteristics of nuclear generation and with the difficulties of energy transmission over long distances, are likely to limit the overall role that nuclear power can be expected to play in LDCs' energy supply in the medium-term.

However, industrial firms have recently become interested in the developing world market and are in the process of scaling down reactor size to meet developing countries' requirements and capabilities. If successful, such development of scaled-down reactors could match requirements of countries such as Morocco, Tunisia, Singapore, the Philippines, and Indonesia.

Renewable Energy

While some promising renewable energy technologies are not developed sufficiently to warrant application in LDCs, several alternative energy sources are proving cost-effective and practical. Where there is adequate sunlight, solar energy used in flat-plate collectors often proves economical for water heating and for distillation in areas where fresh water is scarce and expensive. Solar dryers are introduced to reduce crop losses due to rotting, insects and rodents, particularly where designs are suited to local fabrication using indigenous materials.

Until costs decline substantially, the use of photovoltaic cells is likely to be limited to applications requiring relatively small amounts of electricity (less than 6,000 kilowatt hours per year) in remote locations where alternative power sources are expensive. There are promising advances in reduction of manufacturing costs for solar cells. Production costs could drop even more dramatically with increased volume and mechanization. In the meantime, applications through donor agency assistance are focused upon photovoltaic arrays for medical refrigerators and health clinics, pumping water and communications needs at rural sites.

Vehicle fuel requirements are difficult to meet with energy other than products refined from petroleum. While alcohol fuels, both ethanol and methanol, are promising candidates, their widespread adoption will remain limited until production costs can be lowered or unless the feedstock/oil price ratio changes to make alcohol more competitive. Nevertheless, Brazil continues its major commitment to large-scale alcohol production for vehicle fuel, largely using sugarcane and cassava. Brazil is now experimenting with farm-size stills. For most countries, overall costs for alcohol are still considerably higher than petroleum; feedstock production in commercial quantities can require diversion of land from other agricultural uses, such as food production and export crops. There is increasing interest among other LDCs in the possibilities of using agricultural by-products or temporarily surplus crops for alcohol conversion.

Geothermal energy research and exploration is underway in about 60 countries, most of them in the developing world, but among the LDCs El Salvador, Iceland, Mexico, the Philippines and Kenya have geothermal electric plants. While electricity derived from high temperature geothermal subterranean heat can be substantially cheaper than that generated from oil or fossil fuels, serious technical problems remain. In the Philippines, where geothermal has replaced two percent of oil consumption, steam generating costs rose as mineral salts scaled on generator blades and clogged steam well bores. Geothermal steam, orginally wet, is becoming drier which requires costly modifications in

turbine design. Scientists are still uncertain about what happens when cooled water is reinjected into geothermal reservoirs. Expensive transmission lines are required since the geothermal sources, as in most countries, are located in remote areas.

New technologies -- wind turbines, multibladed designs and improved types of sail windmills for location manufacture - have improved the potential for wind power in many applications. In addition to their traditional role of pumping water, windmills now offer a signficant alternative for supplying electricity in rural and isolated communities. Large aerogenerators also can now be installed as an integral part of an electricity grid, complementing other sources such as fossil fuels and hydro. In some areas with adequate wind and poor rainfall such as northern Mexico, some north and east African countries and India, wind energy conversion systems have become cost competitive with other sources.

Traditional Energy

About half the world's population and three-quarters of all people in LDCs do not cook with modern fuels. One-third of all people rely on wood for fuel. The non-commercial energy problems of nearly all LDCs are becoming more acute as growing populations and rising kerosene prices keep demand high for fuelwood and biological waste. "Non-commercial" is becoming a misnomer for these traditional fuels, since scarcity is causing firewood, charcoal, and plant and animal wastes increasingly to be sold as commodities instead of being freely available to all users.

Documentation prepared for the UN Conference on New and Renewable Sources of Energy in August 1981 forecast that the number of people unable to secure fuelwood to supply even subsistence energy needs would rise from 100 million now to 350 million in less than 20 years. The World Bank estimates that to meet the longer-term fuelwood demand in a sustainable yield, the current global planting rate of 1.25 million acres per year must increase five-fold or 6.25 million acres at an estimated cost of $1.5 to $2 billion per year.

Energy Efficiency

With broad programs of demand management, developing countries can reduce their energy requirements by 15 percent in less than 10 years, according to World Bank estimates. Some benefits could be achieved rapidly, many requiring little or no investment. The International Energy Agency has argued that conservation actions in its member countries could produce 10 percent savings in the industrial sector, 40 to 50 percent in the residential and commercial areas, and 10 to 20 percent in transportation.

A major obstacle to improved efficiency in using energy in developing countries is the policy of subsidized domestic prices for petroleum products and electricity. An appropriate price structure can have a major impact on patterns of energy used.

US Policy and Programs

A goal central to US foreign policy is to assure adequate supplies of energy at reasonable prices in support of global economic advancement. In this context the United States seeks to encourage developing countries to expand production of their indigenous energy resources, renewable as well as conventional, and to assist these countries to overcome energy-based constraints to their development.

Private sector investment, internal as well as external, will constitute the principal impetus for developing countries which aim at self-sufficiency in energy. Bilateral and multilateral assistance from the United States in this area is intended to complement and catalyse private sector investment through such steps as joint project planning, cofinancing, multilateral insurance and the establishment of both the human and physical infrastructure required to underwrite energy production and use. The United States is also interested in exploring the concept of a multilateral mechanism for political risk insurance. An attractive climate for foreign and internal investment needs to be promoted through national policies of developing countries.

US technical assistance in energy, now assuming a more important role in many developing countries, can be enhanced and expanded to accelerate the energy transition in larger numbers of LDCs. Preeminent US technical expertise in many fields if effectively tapped can be valuable in strengthening energy institutions, training personnel and testing new technologies. US know-how in energy planning and assessment techniques and policies can assist countries which possess limited energy planning capabilities and experience and lack the data base required for sound decision-making in this field.

Limited financial resources present another critical barrier to energy development. While public sector and multilateral bank financing is indicated for large-scale projects such as large hydropower, central power stations, and transmission facilities, the private sector is, and continues to be, the principal source of capital inputs required for exploration and development of coal, oil and gas resources with multilateral lending institutions serving mainly as catalysts and facilitators. These efforts often can be backstopped effectively with comparatively modest technical assistance from bilateral donors.

AID

Energy has become a field of major and special concern to the Agency for International Development. AID intends to double its support in energy to more than $85 million during Fiscal Year 1982. From a level of $18 million in FY 1978, AID's energy program grew to $30 million in FY 1980 and over $40 million in FY 1981. (In addition, some Economic Support Funds are provided in some countries to assist with energy-related problems.)

AID energy programs emphasize technical assistance, focusing on four principal areas of activity:

-- needs, uses, resources and policies;

-- training and institutional development;

-- site testing and demonstration of new technologies; and

-- increasing energy supplies, especially fuelwood.

AID's initial focus in energy assistance was limited largely to meeting rural energy needs through reforestation, more efficient cookstoves and small-scale renewable projects. While these activities remain a significant component of the program, the Agency has increasingly broadened its assistance to encompass efforts to expand indigenous supplies of coal, oil and gas, improve energy efficiency in both modern and traditional economic sectors, extend technical assistance for national energy planning, and, in general, to seek solutions to energy problems that produce even short-term payoffs.

Many developing nations have neglected the exploration and development of indigenous oil, gas and coal deposits because they lack experienced personnel with the sophisticated instrumentation required to identify potential fossil fuels. A new AID program of technical assistance and training was initiated in 1981 to extend opportunities for US graduate education in energy disciplines to between 150 and 200 LDC science and engineering students each year. Internships in industry and research laboratories are also awarded. In addition, geophysical and geological surveys and other technical assistance are extended through both the US Geological Survey and an internationally- renowned engineering corporation.

In response to a burgeoning demand from many LDCs to help identify and select promising sites for small waterpower installations, AID concluded a cooperative ageement with the National Rural Electric Cooperative Association to dispatch teams of hydraulic, electric and civil engineers to conduct site reconnaissances, design low-head hydro facilities and help LDC governments compare the costs of investing in hydropower to alternatives such as bioresources, wind, and conventional energy.

The Agency also helps to increase LDC energy supplies through effective application of existing bioresources and development of new bioenergy conversion systems, an activity managed under an agreement with the US Forest Service at about $1 million a year.

Efforts to stimulate development of alternative and renewable energy technologies account for roughly one-third of AID energy funds. More than 80 LDC managers and planners each year attend an intensive 15-week engineering course at the University of Florida which focuses upon solar, small waterpower, geothermal, bioenergy, and wind energy technologies. Renewable energy projects involving small-scale technologies are supported in a number of LDCs. Through a cooperative agreement with NASA's Lewis Research Center, AID is testing the suitability of photovoltaics to meet modest electricity requirements in rural clinics, grain grinding and water pumping in African countries.

Fuelwood projects which in FY 1981 totalled $12 million will be roughly trebled in FY 1982, with activities ranging from seedling production for fast-growing trees in nurseries and village wood-lots to large-scale reforestation projects.

Department of Energy (DOE)

While most of DOE's international activities to help facilitate development of new energy technologies have been with industrial countries, there is recognition of the importance of working with LDCs in cooperation with AID and the Trade and Development program.

At the end of September 1981, DOE phased out its Country Energy Assessments Program which, under State Department policy guidance, had been a collaborative effort with selected developing countries to strengthen their national energy planning and decision-making capabilities. Cooperative national energy assessments, including needs, uses, resources and analyses of alternative national energy strategies have been completed with Egypt, Peru, Portugal, Korea and Argentina. These results are documented in comprehensive reports published after approval by both participating governments.

In other areas of bilateral cooperation, DOE:

-- has been working with Mexico in solar and geothermal research;

-- organized two workshops in Brazil funded by the Trade and Development Program to acquaint government and industry with US coal and technologies;

-- is assisting Saudi Arabia with the world's largest photovoltaic power system and other types of solar technology applications;

-- is cooperating with Venezuela in research and development, with emphasis upon the extraction and processing of heavy oil;

-- co-sponsored with the Trade and Development Program an oil shale development symposium in Morocco.

In addition to the above, two solar agreements are being implemented - a sister laboratory arrangement between the Solar Energy Research Institute and the Korean Institute of Energy and Resources (initiated in November, 1981), and between laboratories in DOE and Israel.

Trade and Development Program (TDP)

TDP facilitates the transfer of US energy technology through grant-financing of project planning services. This is accomplished largely in middle-income and industrializing countries in the form of pre-feasibility and feasibility studies, technology workshops, and technology orientation visits to the United States. These and other programs acquaint decision-makers and planners in developing countries with US expertise in energy research and development and its applicability to their needs. In promoting the transfer of US technical goods and services, TDP assists development efforts and increases the sale of US products and technological services in energy and other key development sectors. Energy projects receive the largest allocation of TDP funds, placing emphasis upon those newly industrialized countries which are negatively affected by quadrupled petroleum prices. Reducing the dependency of these countries on imported petroleum through the more efficient use of energy and identification of less costly alternative fuels for cooking, food drying, transport, and other industrial uses is the main focus of TDP programs.

The intensive research and development by DOE and the US private sector in areas such as oil shale extraction, coal gasification, combustion engineering, hydropower, and ultra high voltage transmission occupies a significant role in TDP programs. Through the benefits of this research, TDP has been able to assist a number of countries in meeting rapidly growing energy demand at lower cost and with a reduced burden on limited foreign exchange.

In Brazil, TDP currently is assisting in a three-phase program to identify projects and establish technical specifications in medium-BTU coal gasification, convert oil-fired utilities to fluidized-bed coal combustion, and apply solar energy for crop drying and industrial process heat. TDP is assisting the electricity generation authority of Thailand to design a number of large coal-fired plants and associated transmission lines for the Bangkok power grid.

In addition to funding and technical assistance, TDP supports technical training in energy and related fields. These programs are designed to assist technicians and middle managers in strengthening the administration of utility, mining, energy and public works ministries charged with managing energy programs in developing countries.

Overseas Private Investment Corporation (OPIC)

OPIC inaugurated a program in 1977 utilizing its political risk insurance and all-risk loan guaranty authorities to catalyze increased exploration for and production of hydrocarbon resources by the US private sector in the developing nations. These activities are being expanded in response to growing interest on the part of US private investors. To date, OPIC has issued 12 political risk insurance contracts on primary petroleum projects, three of them awarded in FY 1981. The Corporation has more than 52 registrations from more than 30 companies in about 42 countries. OPIC with other institutions has devoted considerable effort to the development of geothermal power projects in Asia and is continuing efforts to develop geothermal, solar and other forms of energy in developing countries.

Peace Corps

The Peace Corps' energy program which is in part supported by a $350,000 grant from AID focuses on the development of projects which aim to conserve fuels currently in use or propose alternative sources of energy to perform domestic and agricultural functions. Efforts to date have involved the following technologies: simple solar systems, wood-conserving stoves, mechanical power devices, biogas digesters, hydraulic rams, small water pumping wind systems and improved charcoal production techniques.

The goal of the Peace Corps' energy program is to assist host countries in identifying needs and implementing alternative renewable energy programs at the community level. The trained Peace Corps Volunteer, therefore, functions as a community facilitator who assists villages in seeking appropriate solutions to energy problems which are responsive to community felt needs and foster community self-reliance.

Joint AID/Peace Corps Forestry Initiative

A joint AID/Peace Corps Forest Resources Management Initiative was established in September 1980. The Peace Corps component includes initial funding of $1.2 million for the period through FY 83. The Initiative delivers forestry assistance at the village level. Forestry projects are being developed in six pilot countries; AID provides technical and programming assistance as well as other support services, and the Peace Corps recruits, trains and places volunteers.

Multilateral Institutions

Multilateral Development Banks

The multilateral development banks (MDBs) provide the largest share of development assistance for energy projects, participating in the financing of capital investments in most forms of energy and often funding institutional development and training as well. The MDBs have long supported projects in power generation which still account for a major proportion of their energy programs. In fact, 58 percent or $7.6 billion planned IBRD lending in the energy sector during the 1982-86 period is expected to be in power generation. Roughly 25 percent will be channeled to hydropower. Almost all regional projects will be in the generation of electric power.

Early in FY 1981 the World Bank proposed that its energy lending program for Bank fiscal years 1982 to 1986 be expanded from $14 billion to $30 billion and that a separate energy affiliate be created for this purpose. This proposal responded to a request from the Venice Summit in 1980 that the Bank consider possibilities for improving and expanding its energy lending activities.

In early 1981, after careful consideration, the United States informed the Bank that it was not prepared to support an energy affiliate. Convinced, however, that the promotion of energy investment in the developing countries should be assigned high priority, the United States examined the desirability of expanded Bank lending in each major subsector of energy and the impact that additional Bank lending might have on private sector flows. The conclusion was reached that the bulk of resources for expansion of energy supplies in developing countries must come from private sources, but that the World Bank could play an influential role in encouraging host countries to remove impediments to non-government investment and adopt policies which foster private sector involvement. While not supporting an expansion of Bank energy lending, the US Government identified areas in which the Bank might reorient its activities to have a greater multiplier effect on private investment in LDC energy resources.

In summary, the United States:

-- supports improved cooperation between the World Bank and private sector rather than expansion of Bank lending (beyond the $14 billion programmed for FY 1982-86) or creation of a new energy affiliate;

-- believes that the current program should be improved by directing more attention to complementing and catalyzing private efforts and to encouraging host government policies conducive to private sector investment. This should

strengthen the multiplier effort of Bank energy lending on private investment and increase energy investment in developing countries without requiring additional Bank resources;

-- defers judgment as to whether additional funding should be provided to the Bank for further energy lending until after there has been an opportunity to observe the effect of such improvements.

World Bank lending of almost $4 billion for oil and gas development is projected in the 1981-85 period. The Bank's pre-development work finances preparation of technical data and consulting services to review institutional and legal requirements for oil and gas development. Bank assistance in this area, although initiated recently, has accelerated interest in exploration in several countries, including Madagascar and Equatorial Guinea. The Bank will continue its practice of lending for oil and gas exploration and development, including a number of joint ventures between private investors and host country governments. Other Bank activities range from training and technical support for LDC institutions to counseling national oil companies in the design and implementation of sector policies.

Exploration of coal and lignite deposits is expected to account for $840 million in IBRD lending in the same 1981-85 time frame. The Bank's involvement will include review of geological data on coal resources, financing exploration and feasibility studies, extending technical assistance, and underwriting studies to identify uses where coal can be effectively substituted for other energy sources.

In renewable energy, the Bank has earmarked $200 million for lending in support of power alcohol production, recognizing that such projects must be approached cautiously. Lending on a limited basis will be considered to encourage production of synthetic fuels, including methanol from natural gas and synthetic gas from coal. Renewable energy technologies will be incorporated where feasible in small-scale decentralized power generating facilities. Industrial plants will be encouraged to use biomass for their boiler and power requirements and biogas and solar components will be incorporated where appropriate in rural development projects.

Under consideration by the World Bank is a comprehensive lending program that would contribute to financing the costs of planting trees on 2.5 million acres in 49 countries over a five-year period. This would require more than doubling the loan funds now projected for this activity, i.e. from $425 million to approximately $1.1 billion. Hand-in-hand with this program is a new Bank policy that fuelwood should be included as an integral component of rural development projects which receive support from the Bank.

Regional MDBs continue to increase their emphasis on the energy sector. Cumulative Inter-American Development Bank (IDB) financing to this sector totalled $4.37 billion as of December 31, 1980, which represents nearly 25 percent of total lending. About 92 percent was allocated to electricity generation and distribution, including hydropower; the gas subsector claimed 7 percent, with the balance for oil-related activity. Energy sector lending of $537 million in 1980 constituted 23 percent of the IDB portfolio for the year. IDB management feels that the role of the Bank in the energy sector should be geared to strengthening or creating indigenous capabilities for development of the sector. The IDB is now concentrating its financial assistance to the energy sector in three fundamental areas: production of more energy, diversification of energy supplies, and promotion of adequate conservation of available energy sources.

Over the 13-year period, 1968-80, the Asian Development Bank (ADB) approved $1,963.3 million in energy sector loans. As for the IDB, this represented roughly 25 percent of all loans for that period. The breakdown was about 58 percent for development of energy resources and 42 percent for improved utilization of energy supplies. During 1980, ADB lending for energy amounted to $382.4 million for four projects. The thrust of energy sector lending has been on indigenous resources exploitation, with hydropower receiving the largest share, followed by natural gas, lignite, and geothermal. The Bank's policy on petroleum has been to concentrate lending on downstream activities such as refining and marketing rather than exploration. ADB has conducted a study to assess energy needs in the region, the availability of energy resources and potential for new supplies, opportunities for demand management, and capabilities of energy institutions in member countries.

The major loan of the African Development Fund (ADF) energy sector for FY 1981 was a $19.7 million credit to Egypt for rural electrification.

International Organizations

The United Nations and its specialized agencies are intensifying their activities in energy, placing emphasis upon education and training, selected research, and technical assistance. Allocations for energy in the 1979-81 period, excluding the World Bank and International Development Association, exceeded $100 million. The Division of Natural Resources and Energy makes experts available to assist in the formulation of national energy plans and policies and in strengthening LDC energy institutions. The UN Development Program (UNDP) through the Energy Account, Revolving Fund for Natural Resources, Interim Fund for Science and Technology and other resources extends technical aid for projects which range from petroleum exploration to research on coal liquification to

help in advancing regional cooperation in energy. UNDP made $1 million available to the World Bank to finance energy assessments in 60 selected LDCs; the first study (Indonesia) was published in late 1981. The Food and Agricultural Organization (FAO) has done pioneering work in wood and charcoal, forestry management methodology, and biomass production.

International Discussions

The UN Conference on New and Renewable Sources of Energy, convened at Nairobi in August, was the first inter-governmental conference organized specifically to consider global energy problems. The UN General Assembly stipulated that its scope be limited to eight alternative energy sources: hydropower, biomass, fuelwood and charcoal, solar, geothermal, wind, oil shale and tar sands, ocean, draft animals, and peat. Fossil fuels, nuclear energy and conservation were excluded on grounds they might introduce sensitive political issues. For the first time the world community reached agreement on the analysis, diagnosis and prescription of global energy prolems and on the need for a systematic transition from excessive reliance upon fossil fuels to a diversified mix of resources.

The Nairobi Program of Action identified four areas for priority attention:

-- assessment of national energy resources and needs on a country basis;

-- research, development and demonstration involving specific technologies;

-- transfer, adaptation and application of "mature" technologies; and

-- information flows, education and training in systematic approaches amenable to support and augmentation by regional efforts.

While the United States had reservations on some points, it concluded that the Conference had encouraging achievements among which were the following:

-- Governments and private institutions were informed about current and potential use of new and renewable energies and were stimulated to initiate action to incorporate these energy sources in national energy plans.

-- As about 100 countries established offices to coordinate Conference preparations, an institutional framework was created for the first time in many states for incorporating renewable energy into development planning.

-- Special emphasis was placed upon urgent measures to reverse the trends of deforestation and desertification and reduce the global shortage of fuelwood.

-- The vital role of the private sector, the importance of economic viability of energy projects, and the primacy of individual country responsibility for development and use of new and renewable energy were widely recognized.

-- A sound treatment of the extensive technical inputs to the Conference resulted in a wide range of practical actions for each energy field considered.

Energy was one of several high priority sectors identified at the Cancun Summit in October as meriting urgent international attention. The heads of state stressed the crucial problem confronting LDCs in meeting their energy bills, the need for enhanced energy investment in LDCs from both private and official sources, the importance of energy conservation, and the potential benefits of improved regional and international cooperation.

Prospects for the Near Term

Barring a major oil market disruption, sharp crude oil price increases are unlikely in the next year and the real price of petroleum actually could decline somewhat. In any event, the magnitude of current oil import costs will continue to increase the pressure upon developing countries to control oil imports and make further adjustments in fragile and stagnant economies. Over the short-term, there appears to be scant prospect for significant substitution for oil in commercial consumption. Therefore, unless developing countries can fully offset higher oil import bills with increased foreign exchange earnings - a very unlikely outcome in most cases - they will be forced partly to control consumption and partly to seek more efficient use of fossil fuels. As a result, energy policies, especially pricing and subsidies in developing nations, probably require review and adjustment.

The crisis in traditional fuels (fuelwood and charcoal) is receiving greater attention from governments of developed and developing countries. Despite this growing concern, supply deficits in most countries will become greater in the next few years since trees require time to plant and mature and the

pressure of expanding populations will restrict available supplies. As national resources continue to be stretched thin, the central issue will be whether developing country governments are willing to reapportion resources from other sectors to cope with the problem.

III.A.4. HUMAN RESOURCES DEVELOPMENT

The World Situation

Population

Rapid population growth in developing countries continues to complicate the already difficult task of improving the welfare of millions living at or near subsistence. While birth rates in developing countries have begun to fall, this has been offset by the more rapid decline in death rates. The resulting natural population increase of approximately 2 percent per year would, if unchecked, double population about every 35 years. In some countries, the current rate of increase would double their populations in less than twenty years.

Continued rapid population growth results in a large youthful population and hence high dependency ratios (more than 50 percent). As a result, major portions of national budgets are tied up in providing basic services (health, education, etc.) to this growing dependent population. Especially in low income countries, this also often means that far less of the scarce food, health, education, training resources can be devoted to each child than the minimum required to make that individual a healthy and efficient producer in the next generation.

The demographic situation is serious but not hopeless. Worldwide population growth rates are no longer rising. Over the past decade, 30 developing countries have achieved birth rate reductions of between 15 and 47 percent. Fertility declines have been particularly dramatic in countries with strong family planning programs. In short, population and family planning program assistance are generally considered to have been both costeffective and highly successful.

Nevertheless, in the next twenty years, the world's population is projected to grow by almost 2 billion, and 90 percent of that growth will occur in the developing countries. In developing countries outside of China, however, no more than 30 percent of married couples of reproductive age currently have access to basic family planning information and services. The costs of making basic information and services available to the remainder of the population that needs them are staggering, and well beyond the present resources of donors and developing countries combined.

Health and Nutrition

The following facts facilitate an understanding of health conditions in the developing world:

-- Life expectancy in developing countries is only 54 years, compared with 74 years in the United States; in Africa, it is only 46 years.

-- 15 million infants and children die each year, most of them in the developing world.

-- Fewer than one in four of the 2 billion people in developing countries (excluding China) have adequate sanitation and supplies of safe water. No more than 10 percent have access to modern medical services.

-- At least 200 million people throughout the developing world suffer from malaria; 200 to 300 million are infected with schistosomiasis.

-- There is only one physician for every 50,000 people in developing countries, compared with the United States and Western Europe, where there is one physician for every 600 people.

Improvements in health are fundamental to the achievement of overall development objectives. There is strong evidence that disease and poor nutrition cause lower productivity and higher levels of absenteeism among workers. There is equally strong evidence that children who are sick and malnourished do not learn as effectively as do healthy children. Severe malnutrition in infancy causes irreversible brain damage, and thus impairs learning capacity, both in school and later in the workplace.

Poor health in the developing world is generally understood to be caused by a variety of interrelated factors:

-- malnutrition;

-- numerous, closely-spaced births that debilitate mothers and result in underweight infants whose survival chances are poor;

-- unsanitary living conditions that encourage the spread of disease;

-- ignorance of the causes, prevention, and cures of disease;

-- unequal distribution of health services.

Because of competing demands on tight national budgets, many developing country governments can allocate only one or two percent of their GNP to health services. (Nutrition rarely even appears in the budget.) In many countries this amounts to less than one dollar per person. At present, health resources in developing countries tend to be concentrated in urban

centers and to emphasize hospital-based care delivered by full-fledged physicians. As a result, the modern health care system is costly, provides limited services in rural areas, and is not oriented to the principal health problems of the population, particularly outside urban centers. In recognition of the inadequacies of the current system, the emphasis in developing countries is beginning to shift toward delivery of basic health services with a preventive rather than curative focus, especially in rural areas. However, problems of logistics, inadequate financial and human resources, and heavy recurrent costs that governments did not anticipate and are unable to handle pose major constraints to extending basic health care to the bulk of the population.

In the area of nutrition, between 50 and 70 percent of the total population of developing countries consume less than the internationally established standard for daily calorie requirements. Many of these people thus suffer from malnutrition, and as a result are more prone to disease and less able to learn or work effectively.

Food deficits in many developing countries are large and are projected to grow larger. Between 1961 and 1978, per capita food production fell in 22 poor countries, and grew by less than one percent per year in 28 others. Many of the 1.3 billion people living in these fifty countries suffer some degree of malnutrition. The causes of this problem are several: insufficient total food production, inadequate food distribution and storage and processing, income inequalities, and temporarily elevated needs for food (for instance, during pregnancy and lactation, children's growth spurts, and in illness). Also, allocation of household food supply on the basis of nutritional needs is frequently superseded by sociocultural determinants of food access: in many countries adults and males are generally given higher priority than children and females for access to household food.

Education

The success of countries in raising general education and basic skill levels, in training for specific employment, and in developing scientific, managerial, organizational and other professional expertise is a very important influence on the pace, quality and effectiveness of all development efforts. Those countries which have been most successful in their economic and social development have given early and sustained priority to human resources development.

Many countries have made substantial progress in reducing higher-level manpower constraints. Over the past two decades, as local universities and training institutions have developed, and as thousands of individuals have returned from training in the United States and other countries, the capacity of

developing countries to manage their own development activities has improved. While all countries continue to have specific needs for training additional key personnel, the general shortages which were typical in the 1960s have eased considerably. The most serious high-level manpower problems remaining are in the poorest countries, such as those of Sub-Saharan Africa, which have yet to develop adequate local training capacity and which have had comparatively less assistance for external training. These countries have also made slower progress in expanding basic education.

Since 1960, primary school enrollment in developing countries has tripled, from less than 100 million to 236 million in 1975 and approximately 300 million in 1981. Net enrollment rates for the 6-11 year age group have increased from an average of 47 percent in 1960 to almost 70 percent at present. However, these averages mask major disparities between countries and within countries, ranging from near universal enrollment in the wealthier countries and in the urban areas of most countries to 20-30 percent in some of the poorest countries and for rural girls in particular. Thus, despite substantial quantitative progress, most developing countries continue to face very serious education problems:

-- Approximately 600 million adults in developing countries cannot read or do simple calculations.

-- Due to high rates of dropout and grade repetition, less than half the children complete the four years necessary to obtain basic skills.

-- Educational opportunities are poorly distributed, with children in the rural areas, the urban poor, and females having the least access.

-- The quality of education is poor, with schools typically lacking essential equipment, materials, and trained teachers.

-- Because the school-age population is growing, some countries will have more children not enrolled in school in 1985 than they had a decade ago.

The developing countries are investing as much as 20 percent of national budgets and 5 percent of GNP in education, making it the largest sector of public investment in most countries. Despite these high levels of investment, quantitative progress in expanding educational opportunities has been slow, in large measure because these investments have been directed mainly at higher level education, where costs per student are as much as 20 times those in primary education.

It is becoming increasingly difficult for developing countries to keep up financially with the growing demands of the education system. The poorest countries, which receive most of US bilateral education assistance, can afford to invest only $50 to $75 annually per primary school student. This is inadequate to provide trained teachers, textbooks and other essential materials, and safe and sanitary school buildings. In addition to sustaining the current investment rates, countries must continue to seek greater efficiency in the use of education resources and to explore alternatives to the conventional schooling systems.

US Policy Objectives

Population

The basic objective of US population assistance is to help developing countries that wish to slow down population growth to develop and manage cost-effective voluntary family planning programs of information and services.

Since 1965, when US bilateral assistance for population programs began, more accurate understanding has emerged of the impact of rapid population growth on a country's economic development, and of the complex social, economic, political and administrative factors that influence fertility rates. The basic objective of AID's population program is to make family planning information and safe and effective voluntary family planning services readily available to couples in developing countries. In implementing this objective, the United States, as required by the Foreign Assistance Act:

-- encourages commitment to voluntary family planning on the part of government officials, local opinion leaders, and individuals;

-- gives particular attention to development programs likely to increase demand for family planning services (such as improved education for women), agricultural innovations which lessen the need for child labor, improved maternal and child health;

-- funds biomedical, operational and social science research to improve the efficacy of the AID population program in providing information and services, to provide information to policy makers, and to improve understanding of how progress in other sectors may influence the success of family planning program efforts;

-- supports programs to make safe, effective, and affordable family planning services readily available.

Health and Nutrition

The basic objective of US health assistance is to lower mortality and morbidity in developing countries. With this focus in mind, the US strategy has four key components:

-- direct basic preventive health care to those who are at the greatest risk of illness and poor health (infants, young children, and women at and around the time of childbirth);

-- support efforts to reduce the incidence of water-borne and sanitation-related illness;

-- reduce the toll of other communicable diseases, such as malaria and schistosomiasis, which seriously impede productivity in agricultural areas;

-- help developing countries plan and manage the allocation of financial and human resources in health so that the broad majority of their populations have continued access to basic health services.

Primary health care is AID's top priority in health. This approach is community-based, and relies on locally trained non-physician personnel supported by more highly trained personnel for referrals. Primary health care programs are designed to combat the principal health problems in developing countries. A basic package includes preventive and curative services, nutrition surveillance and supplementation, immunizations, and family planning. This approach is less costly than providing the same services exclusively through physicians or nurses.

US nutrition assistance emphasizes improving production, access to, and better utilization of food by those households and individuals that are at highest nutritional risk. This approach generally calls for integrating nutrition goals into health, rural development, and agricultural programs, and specifically entails:

-- increasing agricultural production of small scale farmers;

-- improving rural markets and access to them;

-- nutrition education, including promotion of breastfeeding;

-- providing seasonal sources of income or food, and food supplements to especially vulnerable individuals.

Education

Human resources development activities are part of US development assistance strategies in all sectors. Most of the

US-assisted projects in the health, agriculture, rural development and other sectors include attention to human resource considerations; at least 20 percent of project expenditures in these fields support training activities. Within the education and human resources sector program, the US objectives are:

-- To improve the access of children to basic education, through improvements in the efficiency, quality and relevance of basic schooling.

-- To improve the functional life skills of adults, through improvement of communication and information systems and through nonformal adult education and training.

-- To improve the management and technical capabilities of developing country institutions and through technical and academic training for key staff people.

Progress with US Bilateral Assistance Toward Meeting US Objectives

Population

In the last couple of years, demand for population assistance has far exceeded the available resources of international donors and the developing countries themselves. There are several reasons for this dramatic growth in demand for basic family planning information and services. First, it is a simple demographic fact that each year there are increasing numbers of couples reaching their childbearing years and requiring basic family health services. Second, governments in developing countries are increasingly concerned about the linkages between rapid population growth and overall economic development, and they have identified efforts to reduce population growth rates as a necessary step in promoting economic growth and more efficient use of their human, physical, and financial resources. Third, as the links between numerous closely-spaced births and infant and maternal mortality have become better understood, individuals in developing countries themselves have begun to demand family planning services in order to space births and to limit overall family size.

Successful family planning programs tend to occur in countries where there is strong commitment by the host government to addressing the population problem, an infrastructure with the capacity to deliver services throughout the country, and social and cultural acceptance of the concept of family planning. US population assistance is directed to countries where these three conditions exist. Experience with population programs has demonstrated that a balanced program

which provides family planning services and information, combined with efforts to build community and family support for voluntary family planning, can contribute to individual and family health and well being, as well as to fertility declines.

The largest proportion (approximately 75 percent) of US population assistance goes into providing family planning services, including training for physicians, paramedicals and field workers; commodities; and technical assistance in the design and improvement of distribution systems. In 1981, this amounted to about $140 million.

Working with governments and the private sector over the past 15 years, AID has developed and refined effective ways of strengthening infrastructures through which family planning services can be provided. For instance, in areas with efficient local distribution mechanisms such as pharmacies and general stores, AID may fund contraceptive retail sales programs. Accompanying the provision of direct family planning services are projects providing information and education on population and family planning, both for individual users and for government planners and policymakers. When requested by governments, AID has provided technical assistance to help analyze the effect of government policies on the availability of and the demand for family planning services, as well as the impact of rapid population growth on other sectors like food, health, and energy. In 1981, approximately $17 million went to support information and education for users of family planning services, and for policy makers in developing countries. The United States also supports research on the safety and effectiveness of contraceptives under actual developing-country conditions. Long-term objectives for biomedical research include development of male and female contraceptives which are safer, simpler and more effective than the existing ones. In 1981, the United States contributed about $6 million for this purpose.

The US family planning program is based on voluntarism and free choice. AID does not fund or in any way encourage or advocate abortions or research on methods of abortion. In fact, AID's efforts provide a humane and acceptable alternative to abortion for women in developing countries.

Exploring the interrelationships between population growth and economic development has been instructive for the United States as well as for developing countries. While developing country governments have strengthened their commitment to curbing excessive population growth, the United States has gained a greater appreciation of the social and economic reasons for misunderstanding of, or resistance to, family planning. Therefore, US policy encourages countries to adopt a total development strategy in which objectives and activities in all sectors, including population, are mutually reinforcing.

Health and Nutrition

The United States has been a world leader in developing and supporting low-cost, community-based health services that use paraprofessional health workers such as village or community workers, nurse-auxiliaries and village midwives. Basic services include a mix of programs, depending on the needs of the local community and the availability of alternative services providers, but may include: maternal and child health services, family planning information and services, nutrition surveillance and education, oral rehydration, immunizations against communicable childhood diseases, and basic curative health services. Wherever practical and feasible, low-cost improved water supply and sanitation programs are an integral part of primary health care programs.

In 1981, one half of AID's health budget (about $143.3 million) supported basic health services, primarily in Africa, where primary health care programs are relatively new, and in Asia, where these programs are under way on a substantial scale. AID support for basic health services is used for:

-- planning, management, and evaluation of primary health care systems;

-- applied research to test innovative delivery mechanisms and to identify the most cost-effective means of meeting health needs in developing countries;

-- basic and refresher training for primary health workers;

-- temporary provision of key commodities (basic drugs, contraceptives, rehydration salts, etc.)

Improvements in domestic water supply and basic sanitation can also help substantially to improve health, particularly in conjunction with primary health care. Among the activities which the United States supports in this area (with a 1981 contribution of about $30 million) are the following:

-- technical assistance for planning of water resources use and management;

-- training of developing country personnel in the design, operation, and maintenance of water supply and sanitation systems;

-- educational activities to improve hygiene and public health;

-- construction or rehabilitation of water and sanitation systems that are technically and culturally acceptable, and whose costs can be borne by consumers themselves over the long term;

-- development and testing of innovative approaches to providing water and sanitation services at a low cost;

-- encouragement of local manufacture of parts and equipment for water supply and sanitation systems in developing countries.

Many infectious diseases prevalent in developing countries significantly lower productivity in agricultural areas. (The most widespread are malaria and schistosomiasis.) Many infants and young children die from easily preventable childhood diseases like measles and diphtheria. Disease control often requires more aggressive programs than normal primary health care services can provide. Among the activities which the United States supports (with a 1981 contribution of about $21 million) are the following:

-- vaccination against comunicable childhood diseases, included as a part of primary health care programs wherever feasible; special immunization campaigns if necessary;

-- malaria control programs, using a combination of approaches, from control of mosquito populations to the treatment of malaria victims with anti-malarial drugs (AID funds are used largely for training and applied research);

-- onchocerciasis control program - AID is one of 15 donors engaged in a program to control onchocerciasis (river blindness) in the Volta River Basin. AID is contributing almost $10 million as part of this multi-phase, major international effort. At the beginning of the project approximately one million people out of an estimated total population of 10 million were infected with onchocerciasis and of these 70,000 were blind. Control has been established in 80 percent of the area, and there has been a reduction in the prevalence of the disease, with very few new cases are being reported in many of the treated areas;

-- basic research leading to new means of preventing, controlling, and curing major communicable diseases; and

-- operations research programs, in conjunction with other donors, to identify safe, cost-effective methods of disease control.

Recent emphasis on the extension of free, comprehensive health services to the population at large has been more effective than urban and hospital-oriented systems in reaching agricultural communities; however, it has been plagued by recurrent cost difficulties and management problems. Developing countries continue to devote significant financial and human resources to health care systems that benefit only a minority, resources which could be used much more effectively,

if properly channeled to selective health interventions, for the more general improvement of health. Closer integration of services with traditional private practitioners, and the establishment of user fees for those with the capacity to pay are two potentially cost-effective approaches.

The definition of nutrition programs has been recently broadened beyond food supplements and weaning foods to include income generation, home gardens, regional development, education, and agriculture. The United States has been successful in transferring agricultural methods to the developing countries in general, but more emphasis is now being placed on transferring appropriate technology to the poorest farmers. The United States has also been in the forefront of nutritional science, both in research and in field applications. Collaboration among AID, the National Institute of Health, the Center for Disease Control, the Department of Agriculture, and universities has fostered research on innovative techniques for identifying, measuring and treating malnutrition, and assessing the nutritional impact of various programs. In 1981, about $2 million was spent on nutrition policy and planning and $9 million on direct nutrition improvement.

Education

As described earlier, the priorities of US bilateral assistance for education are on basic primary education, nonformal adult education, and strengthening the managerial and technical capabilities of developing country institutions. Total development assistance for education was $102.9 million in FY 1981. An additional $9.6 million was provided under the Sahel programs. Including the Sahel programs, manpower development received $34.7 million, basic education (formal and nonformal) $33 million, labor programs $20.7 million, vocational, technical training $11.5 million and all other activities (planning, policy, support for private voluntary organizations and activities supporting women in development) $12.6 million.

The bulk of assistance is dedicated to regional projects in all four regions, with the largest programs in Latin America and Africa. Currently, approximately one third ($35.9 million in FY 1981) of AID development assistance for education supports programs in Latin America, where primary school attrition and repeater rates are among the highest in the world. Approximately one fourth ($24.9 million in FY 1981, plus the Sahel program) of the program supports activities in Africa, where general shortages of technical, administrative, scientific, and other skilled personnel continue to create serious problems and where primary school enrollments and adult literacy are the lowest in the world.

The education assistance program, however, also includes centrally-funded projects supporting the development of free labor unions; the development and testing of more effective and efficient approaches to primary education, nonformal skills training and development communications; Women in Development programs; and community education services provided by private voluntary organizations. In FY 1981 US support for such centrally-funded projects was about $12 million.

Demand for the education and training expertise, technologies and approaches which the United States has developed continues to be strong. The United States is recognized as having created the largest and most diverse system of higher education and specialized technical training in the world. It has led in helping developing countries to expand training programs; to experiment with more effective means of providing primary education, nonformal education and skills training; to apply media and communications technologies in education; and to expand education opportunities for women and other neglected groups.

AID has undertaken a series of in-depth impact evaluations of education projects in selected countries which have received substantial education assistance over the past two decades -- Nepal, Thailand, Korea, Philippines, Paraguay, Jordan, Nigeria, and Kenya. These evaluations, which point out many operational lessons applicable to future programming, affirm the judgment that assistance to education has had lasting and beneficial impacts on both social and economic development.

The training of key educators and other professionals appears to be one of the most constructive and lasting investments the US bilateral assistance program has made. US-trained faculty can be found in most developing country universities and at least 117 universities have been assisted by AID over the last 20 years. In countries such as Nepal, the United States has been the main source of external assistance to education, helping the country to raise school enrollment from less than one percent of school-age children in the 1950s to over 60 percent in 1981. The United States has helped to establish institutions for teacher training (e.g., Nigeria, Jordan, Nepal, Paraguay) as well as for education research and experimentation (e.g., Korea, Nigeria, Kenya, Philippines), and has supported major experiments in nonformal education and skills training and the use of media in education (e.g., Kenya, Thailand, Philippines) which have led to significant reforms and to replication in other countries.

International Assistance for Human Resources Programs

Programs in population and family planning also enjoy a high proportion of support from external donor sources other

than the United States. In 1981, about 40 percent of the approximately $1 billion spent on population activities in the developing world came from international donors. The two principal donors in international population assistance activities, next to the United States (which is the largest) are the UN Fund for Population Activities and the World Bank. The World Bank's obligations for population activities have averaged around $75-80 million over the last several years. The budget of the UN Fund has grown steadily since the Fund was established in 1969, and in 1981 was close to $140 million for population activities worldwide.

In international health programs, the expenditures of international donors are a small fraction (estimated by the World Bank at about 5 percent) of the expenditures by the developing countries themselves. Total external assistance for health care in developing countries was about $400 million annually in the late 1970s, approximately half of which was contributed by bilateral donors. The major multilateral organizations providing international health assistance are the World Bank and UNICEF, although WHO and UNDP (and recently the Asian Development Bank) also have significant efforts. International health assistance has focused on disease and vector control activities, basic health services, and health education, although in recent years there has been increasing emphasis on low-cost primary health care programs.

Total international assistance for education and training reached a level of $3.6 billion in FY 1978, and has been growing at a rate of 10-12 percent annually over the last several years. As large as this amount appears, it is dwarfed by the more than $60 billion spent by the developing countries themselves on education and training. Almost 80 percent of total external assistance to education programs comes from two sources: the OECD countries (of which France is by far the single largest donor); and the World Bank (IBRD/IDA). The World Bank's education lending has grown steadily from an average of $150 million in the late 1960s to over $500 million annually today. Of total international assistance to education programs, the US bilateral programs (including human resource activities and project-related training in noneducation sectors) represents about 6 percent. An estimated additional 5 percent is provided indirectly through US funding of multilateral programs.

Prospects for the Near Term

Population

Despite the overall budget limitations, the United States seeks for FY 1982 to provide assistance in this area at approximately the same level in real terms as in the previous

year, through a budget increase for population programs from $190 million in FY 1981 to $211.7 million in FY 1982. This reflects the US conviction that effective population programs are a vital part of any overall development strategy, and that the United States has an important contribution to make in this area. US strengths in population programs are rooted in American scientific expertise, management and logistic skills, and the record of US private enterprise. The US program in 1982 will further build on these strengths, and will continue to concentrate on those developing countries whose governments are strongly supportive of family planning and where the improvement in economic and social conditions has already generated a spontaneous interest in smaller families.

Health and Nutrition

Despite the very real health problems which developing countries face and the ambitious objectives of the US health assistance program, health programs will be receiving significantly lower funding in FY 1982 and 1983 than in 1981 and earlier years. In FY 1982, for instance, the AID health program will amount to about $117 million, or approximately 18 percent in nominal terms below FY 1981 levels. In large part, this reduction reflects tight budgets and competing priorities, especially in the area of agriculture and food production. However, the reduced budget request for health also reflects the conviction that the greatest improvement of health conditions in developing countries is likely to come from better focused and targeted health programs rather than from additional funding. It is becoming increasingly clear, for instance, that the extension of free, comprehensive health services to the population at large is in most developing countries an impossible ideal which is fraught with serious management and recurrent-cost problems. Thus, US assistance to health programs in FY 1982 and beyond will give greater emphasis to ways of improving the management and planning capabilities of developing countries themselves to deliver basic health care programs.

For example, AID will fund in FY 1982 a $9.4 million project to establish a primary health care delivery system in the rural district of Kitui, Kenya, that can be adapted and replicated in other areas of the country. This project will establish a district-based health care approach that will incorporate and coordinate both government and private rural health care activities in the area. AID funds will be used for training health personnel, developing health planning capacity, and rehabilitating community-based facilities. As another example, AID is currently developing a major health services financing project for start-up in FY 1983 to assist the Government of the Philippines in systematically examining alternative mechanisms for financing primary health care. Among the financing systems to be tested are health

cooperatives and insurance programs, user payments, and income generating activities related to primary health care. The project will include a plan for replication and expansion of the financing mechanism found most cost-effective in this experimental program.

The challenge ahead for nutrition is to focus agricultural assistance programs on nutrition problems and to make Food for Peace a more effective development tool. Funding levels for direct nutrition interventions have been reduced, and nutrition programs will be in the future more closely integrated with the health, rural development, and education programs which AID also supports.

Education

For FY 1982, US bilateral assistance for education is projected to be $116,million compared with $102 million in FY 1981. As noted earlier, the general shortage of higher-level manpower in developing countries has eased considerably in the last 20 years. Still, all countries continue to have specific needs for high-level personnel in key areas. Thus, about 50 percent of the total US bilateral assistance for education in FY 1982 is intended to support training for administrators, managers, scientific and professional personnel for the private and public sectors, as well as local vocational or technical training programs. Support will continue to be provided to strengthen local and regional institutional training and to bring individuals from developing countries to the United States for training in key development areas. (Where appropriate and cost-effective, individuals may be sent to third countries.) In Indonesia, Yemen, and the African region, for instance, administrative and managerial training programs are being developed with AID support.

Chapter III.B.

MULTILATERAL DEVELOPMENT ASSISTANCE PRIORITIES

III.B.1. PRIORITIES CONCERNING MULTILATERAL DEVELOPMENT BANKS (MDBs)

Assessment of US Participation in the MDBs

Shortly after taking office the Reagan Administration initiated a comprehensive evaluation of the policies and operations of the multilateral development banks (MDBs) in order to establish a new policy and budgetary framework for US participation in these institutions in the 1980s. This interagency assessment, in which the State Department, AID, and OMB participated, with the Treasury Department taking the lead, was a natural consequence of the change in Administration, and the need to ensure that US participation in the banks fully reflected the Administration's views as to how economic development can be most efficiently promoted. The other factors which dictated the need for such an evaluation include the rapid growth and size of budgetary requests for the MDBs; the importance of bringing federal spending under control as part of the economic recovery program; and questions raised about the size of the U.S. contributions to the banks, US influence in the banks, and the size, growth, and orientation of bank lending.

The results of the review and its broad implications of the policy and budgetary framework for US participation in the MDBs are summarized in the following paragraphs.

Role of the MDBs in the International Economic System

To place in perspective the role of the multilateral development banks in world development and in the international system, the assessment examined, in light of actual MDB performance, the need for future MDB financing and the extent to which bank operations utilize free market mechanisms in the allocation of capital resources.

A sound economic justification for the MDBs was found to rest upon the overall importance to the United States of sustained developing countries' growth and development, and the existence of situations which require government intervention to provide economic benefits that private investors would not or could not generate. The most important aspects of MDB lending were found to relate to correcting internal and external "market imperfections" hindering LDC development, and

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facilitating projects which yield positive externalities or benefits to the community at large. A look at the distribution of MDB lending by sector suggested that an overwhelming proportion of MDB lending has been directed into those sectors which tend to be in this desirable framework. The extent to which MDB activity appears to have displaced private sector activity also appreared minimal.

US Objectives Concerning the MDBs

From the beginning, the United States has viewed the MDBs as an important foreign policy vehicle to enhance our security, economic, and humanitarian interests. The basic long-term, systematic goal of the United States has been to build and maintain an international economic framework that is open, predictable, growing, and characterized by increased efficiency and output. Such an international economic system was expected to encourage the development of democratic, pluralistic societies similar to ours. To a broad degree other donors and the developing countries have also tended to share the United States' desire to strengthen the international economic and political system and enhance the ability of the developing countries to participate fully; they have also shared the US perception of the crucial role of the MDBs in this process.

In seeking this goal, the United States has pursued three broad policy objectives through its participation in the MDBs. The first of these, relating to US political/strategic interests is based on the US foreign policy role as leader of the non-Communist world. Fulfillment of this role has several specific dimensions as it relates to US participation in the MDBs. The long-term dimension calls for the development of a more secure and stable world through the promotion of steady and broadly based economic growth. The medium-term dimension calls for substantially assisting those countries which are of ongoing political/strategic importance to the United States. The short-term dimension calls for rapid economic support for countries which are of special importance to the United States and which are in need of immediate assistance.

The second, and closely related, broad policy objective has to do with the preservation and growth of a market oriented, global economic and financial system through the promotion of economic and social development. The operations of the MDBs have contributed to this objective by strengthening the abiliy of the developing countries to participate more freely in the market oriented international trade and finance system, and enhancing their long-term economic health. The MDBs do this by acting as a catalyst for private sector finance, trade, and technology flows to the developing countries; transferring resources to developing countries; facilitating institution

building and human capital formation; and encouraging rational economic policies in the developing countries.

The third broad policy objective has to do with our humanitarian concern with alleviating poverty and improving material well-being in developing countries. By promoting overall economic growth and productivity in developing countries and by pursuing programs aimed directly at raised incomes of the poor, the policies and programs of the MDBs are consistent with this objective. The banks can also provide rapidly disbursing assistance to help restore productive capacity in the aftermath of natural disasters, e.g., World Bank and Inter-American Development Bank loans to Haiti and the Dominican Republic for post-hurricane reconstruction.

The United States has also pursued three operational objectives within the context of its participation in the MDBs. The first of these is to protect its economic self-interests. This can be achieved through various means: MDB projects can lead to increased supplies of raw materials and other products needed by the US economy, as well as expanded US earnings through procurement under MDB financed projects, as well as by the MDB's own purchases of US goods and services and the expansion of developing country markets for US exports. A second operational objective is budgetary, with the goal of minimizing direct US budget outlays for foreign assistance. This can be done through cost sharing arrangements and by leveraging the US paid-in contributions to the hard loan windows of the MDBs through MDB market borrowings backed by callable capital, which does not require budget outlays. The third operational objective, institutional efficiency, has to do with the effectiveness of the MDBs in carrying out their development missions. This involves having the MDBs minimize their administrative costs while implementing high quality loans.

MDB Performance

In order to determine the extent to which US participation in the MDBs has contributed to our foreign policy objectives, the broad range of criticisms levelled against the banks' policies and programs was systematically evaluated. Several criticisms proved to be both valid and significant. For example, a survey of recent MDB loans revealed that economic rates of return were relatively high, 15-20 percent on average, indicating a positive contribution to economic development. On the other hand, a significant percentage has had economic or financial problems, many of which appear to be associated with insufficient efforts by the banks to promote appropriate economic policy reforms in borrowing countries. With regard to the contributions the MDBs can make to the international

economic system through promoting the adoption of appropriate policies by developing countries, it appears that the banks have only limited influence on macro-economic policies. Their leverage is the greatest at the project level and where the economic views of the recipient are compatible with the market orientation of the banks. Furthermore, MDB policy leverage has been undercut by emphasis on meeting country and sector lending targets and by continuing to fund projects in countries which do not follow MDB policy advice.

Taking into account these and other specific criticisms, the MDBs as a group were then assessed in terms of their performance against each major US objective. The conclusions are as follows:

-- The MDBs, by and large, have been effective in contributing to our global economic and financial objectives and thereby also helping us achieve our political/strategic objectives. There is, however, room for improvement in terms of exercising more effective economic policy leverage and implementing more effective graduation policies.

-- The soft-loan windows of the MDBs are particularly effective in contributing to US humanitarian interests.

-- MDB financing, particularly from the hard loan windows, contributes significantly to the achievement of US long- and medium-term political/strategic interests, but is less effective with regard to achievement of many short-term political/strategic objectives, where identification of assistance with the United States is important.

With regard to the operational objectives:

-- The MDBs have served US commercial interests well.

-- The MDBs, particularly the hard loan windows, are particularly effective in serving the budgetary objective because of cost-sharing with other donors and the financial leverage derived from MDB borrowing against callable capital guarantees.

-- The MDBs have served the US institutional efficiency objective reasonably well through operational and administrative efficiency and the generation of generally high quality loans.

US Influence in the MDBs

To pursue effectively the Administration's new MDB policy direction, the United States will need to build an inter-

national consensus supporting these US policy objectives. For this reason the assessment sought to gauge the extent to which the United States has been able to achieve its policy and operational objectives in the banks.

An examination of selected case studies over the past 10 years revealed that the exercise of US influence involved the expenditure of political capital, with the United States drawing on its prestige as a world leader, and on the broadly shared commonality interests among major donor countries, major recipient countries, and MDB management in promoting an open, predictable, and growing international system, as well as exercising financial leverage resulting from the US position as the largest contributor. The effort frequently required high level political involvement, up to and including the President.

The successful exercise of US influence depended to a large degree on the United States being fully and clearly committed to a well defined objective. Also important for the successful exercise of US influence was the support of other major donors and/or the extent to which MDB policies and operations were consistent with the US objective. Congressional actions or attitudes also provided important leverage for achievement of US objectives. Conversely, instances where the exercise of US influence was not fully successful were characterized by inconsistency among objectives pursued, poorly defined objectives, and opposition from other parties.

In conclusion, in terms of the ability of the United States to influence MDB policies in the future, two key conditions will need to be met. The United States must be strongly and clearly committed at high levels to a well-defined policy and be prepared to expend political capital to succeed. Also, one or more of the other significant actors -- MDB management, other donors, and borrowers -- must support, or at least not oppose, the United States. Because political capital is a scarce commodity this will require setting clear priorities, careful timing, and well orchestrated tactics.

New Policy Framework

The Administration believes that continued US participation in the MDBs is justified as long as the banks continue to support sound development activities and promote market oriented principles and international stability. Thus, the United States believes that MDB operations should help economic development through, among other things, better integrating the developing countries into the international economic system, by:

-- encouraging free and open markets;

-- placing greater emphasis on the private sector as a vehicle

for growth and reducing government involvement; and

-- assisting the needy countries which are willing to help themselves.

Given budget constraints, pursuit of these goals through the MDBs implies increased emphasis on their financial role as catalysts for private flows and as sponsors of appropriate economic policies. The developmental role of these institutions in encouraging a market oriented philosophy, and in transferring resources to promote sound economic activity, should also be stressed. If performed effectively, these functions can contribute significantly to future global stability. Among the MDBs, those to be strongly supported are those which most effectively promote US objectives.

The Administration has consulted with Congress, and with other donors and MDB management on the policy recommendations in the assessment. In addition, the United States will continue to work constructively with other MDB members to improve the operational effectiveness of the banks and to insure MDB resources continue to be utilized effectively to promote development.

The key elements of these recommendations emerging from the assessment are:

-- increasing MDB emphasis on catalyzing private financial flows, and in promoting the development of the private sector in developing countries;

-- concentrating the focus of MDB concessional funds on the poorer countries through "maturation", i.e., as their debt servicing capacity permits, moving countries currently eligible to borrow both concessional and market-related or "hard" funds to reliance on hard loan funds (which are financed by MDB borrowings on capital markets), while at the same time beginning to reduce U.S. financial participation in real terms;

-- more effective implementation of "graduation" policies for phasing out higher per capita income borrowers, who are able to secure needed finance from international capital markets, from MDB hard loan funds in order to reallocate those funds to borrowers without adequate access to capital markets and, at the same time, begin to scale down US paid-in subscriptions to the hard loan windows; and

-- implementing more flexibility and selectivity in MDB lending in order to encourage borrowers to adopt appropriate economic and financial policies.

The major underlying issue is that of the budgetary levels for future USG participation in the MDBs. It is clear that funding will be scarce. Since the level of US financing affects overall MDB funding, it will to a large extent determine the speed of "maturation" and "graduation". The greater the US contribution to concessional funding, the more gradual would likely be the maturation process; also the less the need to graduate users of hard loan funds. There is also a trade-off between the advantages of reducing budgetary outlays and the political costs and economic repercussions of accelerated graduation/maturation.

III.B.2. PRIORITIES CONCERNING UNITED NATIONS AGENCIES

The fundamental US interest in international stability and economic development, which the previous section stressed, is well served also by channeling development resources selectively through the United Nations system. US support enables development-active UN institutions to exercise an influential role within developing countries, thereby offering a viable and attractive alternative to tied assistance from the Soviet bloc. The alleviation of hunger, disease, illiteracy and resource depletion, to which these UN agencies devote increasing emphasis, coincides with the high priority the United States accords to these same objectives and helps to combat threats to stability and peaceful cooperation.

Both developed and less-developed countries benefit from UN system efforts to focus worldwide attention on global issues of vital concern to all, and to mobilize appropriate multilateral action. The UN Development Program (UNDP) is the major international instrument for the delivery of multilateral technical assistance programs to the developing world. The World Health Organization's long-standing promotion of health services and development of international health standards has culminated in the adoption of a new and ambitious goal - the attainment by all the world's population by the year 2000 of a level of health that will permit them to lead socially and economically productive lives. The Food and Agriculture Organization (FAO), the World Food Program (WFP), and the World Food Council (WFC) have drawn attention to the worsening food situation in many developing countries. Programs such as the Food Security Scheme, the FAO Global Information and Early Warning System, and the International Fertilizer Scheme have been launched, with US support, to address this concern. In addition, FAO's data collection, analysis, and dissemination efforts serve international agricultural trade, and the United States has the largest stake in that trade. The United Nations Environmental Program (UNEP), in collaboration with FAO and other UN agencies, is creating greater awareness of the consequences of poor land management and forest degradation. UNEP/FAO programs on tropical forest conservation and regeneration are stimulating corrective action. The International Atomic Energy Agency (IAEA) is seeking to increase peaceful uses of nuclear energy and also serves as the principal promotor of nuclear safeguards and non-proliferation. These are only a few examples of how multilateral collaboration through the UN system serves the direct interests of the United States while promoting development in other countries.

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Strengthening the UN system's capacity to promote development entails more than the transfer of resources by the traditional donors. Financial resources are scarce, and it is vital that this responsibility be spread more widely and that scarce donor resources be used more effectively.

OPEC members and other developing countries at the higher end of the per capita income scale are being encouraged to assist their less fortunate neighbors, and many are indeed attaining "net donor" status. OPEC countries have, for example, been major contributors to the International Fund for Agricultural Development (IFAD-see section IV.B.2.) in support of the latter's efforts to channel funds to the small farmers in LDCs.

The United States and other traditional donors are, in addition, placing greater emphasis on controlling budgetary growth within the UN system, encouraging UN institutions to define their development priorities more sharply and to continually re-examine their programs and activities with a view to eliminating those which no longer deserve priority or which are unrealistically ambitious. The United States will also continue to evaluate the strengths and weaknesses of all major UN programs in order to determine how US humanitarian and development policies can be promoted most efficiently. In most cases this implies support for activities which, inter alia, provide assistance to the most destitute peoples and which foster self-help.

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IV

OFFICIAL UNITED STATES SUPPORT FOR DEVELOPMENT

IV

OFFICIAL UNITED STATES SUPPORT FOR DEVELOPMENT

Chapter IV.A.

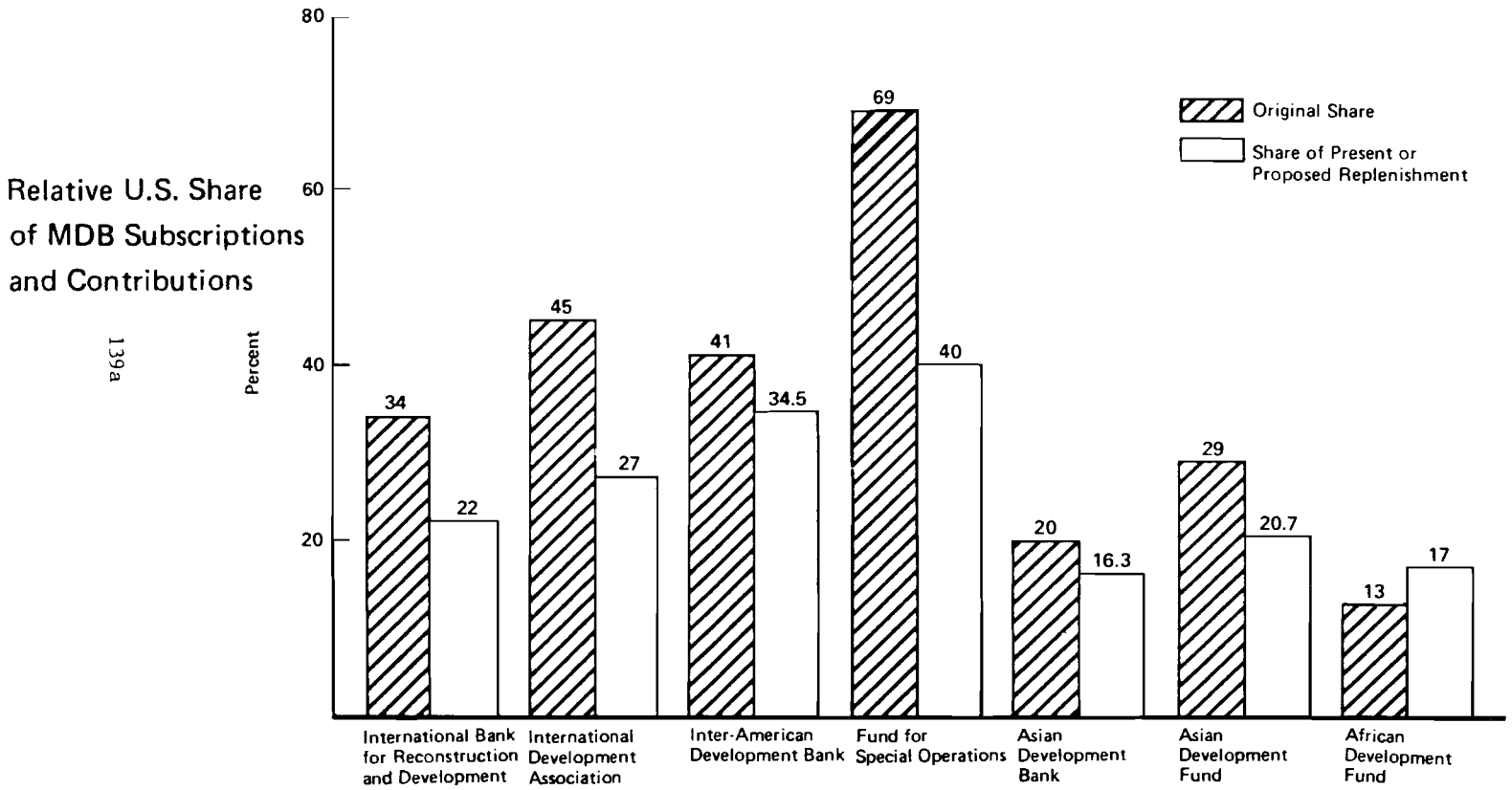
MULTILATERAL DEVELOPMENT BANKS' PROGRAMS

Section III.B.1. discussed in detail the US priorities concerning development assistance channeled through the MDBs, and the results of the US government review of their role and policies. This chapter is an account of the programs and activities of the MDBs, and of US participation, in FY 1981.

International cost-sharing through the MDBs has become more equitably and widely spread. The US share in every bank in which the United States is currently participating -- except the African Development Fund -- has declined in recent years, while the lending levels of these institutions have increased. Other donor countries now contribute 75 percent of total multilateral bank resources. Moreover, the leveraging of relatively small paid-in subscriptions with bank borrowings from private capital markets multiplies the economic assistance which can be channeled through the hard loan windows of banks. Put another way, the program pay-out for each budgetary dollar paid into these windows by MDB members can be very high. In the case of the World Bank's General Capital Increase approved in 1980, for example, the World Bank will in effect be able to lend more than sixty dollars for each dollar paid in by the United States.

The loan commitments of the World Bank Group and the regional development banks totalled approximately $16 billion in 1980. Nonetheless, MDB assistance represents only a relatively small proportion of the total external financial resources provided to the developing countries. In net disbursement terms, MDB assistance has in recent years been about one-fourth the level of the bilateral official development assistance provided by the OECD countries; and it has also run about one-fourth the level of financial resources provided by private sources as well. However, the proportion of MDB financing can be significant for those individual low-income countries with little or no access to private capital markets. The MDBs should not, moreover, be viewed solely in the context of the need for resource transfers. Their role in the development process is considerably broader than this. It is the combination of the roles of project lender provider of technical assistance, financial catalyst,

- U.S. Shares have Declined
- Other Nations have Increased their Contributions



institution builder and policy advisor which makes the MDBs unique, and it is in this context that they contribute to developing country growth.

Legislative Activities in FY 1981

In FY 1981, legislation was enacted to authorize US participation in the 1981 General Capital Increase of the World Bank in the amount of $8.8 billion and the Sixth Replenishment of the International Development Association in the amount of $3.24 billion.

The Congress also passed authorizing legislation to permit the United States to join the African Development Bank (AFDB) with an initial subscription of $359.7 million. At the end of FY 1981, there were not yet a sufficient number of votes from AFDB members -- with Algeria, Libya, and Nigeria not having voted -- to ratify the necessary amendments to the AFDB Charter to permit non-regional members to join the institution.

Legislation was also enacted to authorize the remaining portion of the US subscriptions and contributions to the most recent Inter-American Development Bank capital increase (an additional US subscription of $274.9 million), the Fund for Special Operations replenishment (an additional contribution of $70 million) and the Asian Development Fund replenishment (an additional $66.8 million).

In view of budgetary constraints, subscriptions and contributions to the MDBs were limited by the omnibus Budget Reconciliation Act of 1981 as shown in Table 1.

Finally, the Congress appropriated $1,261.7 million in FY 1982 for US subscriptions and contributions to the MDBs. Program limitations for $2,339.9 million also were provided. The breakdown of the appropriations and program limitations for FY 1982 is as shown in Table 2.

Major Developments in 1981

World Bank Group

The World Bank Group consists of the International Bank for Reconstruction and Development (IBRD), which makes loans on non-concessional terms primarily to its middle income developing country members; the International Development Association (IDA), which extends credits on concessional terms to its poorest developing nation members; and the International Finance Corporation (IFC), which makes loans and equity investments primarily in the private sectors of its developing country members.

Table 1

Institution	Limitations in Appropriations		
	FY 1982	FY 1983	FY 1984
IBRD General Capital Increase	109,720,549	109,720,549	109,720,549
IDA VI	850,000,000	945,000,000	No limitation
IBD Capital	No limitation	No limitation	No limitation
IBD/FSO	190,677,000	1/	No limitation
ADB Capital	No limitation	No limitation	No limitation
ADF	125,366,177	2/	No limitation
AFDB	17,986,679	17,986,679	17,896,679
AFDF	No limitation	No limitation	No limitation

1/ Of funds authorized by PL 96-259, not more than $105 million may be made available for FY 1983.

2/ Of funds authorized by PL 96-259, not more than $44,500,000 may be made available for FY 1983.

Table 2

FY 1982 MDB Appropriations

a. International Bank for Reconstruction and Development

1977 Selective Capital Increase (US $)

Budget Authority for paid-in capital	37,168,491
Program Limitations for callable capital	(334,508,395)

1981 General Capital Increase

Budget Authority for paid-in capital	109,720,549
Program Limitations for callable capital	(1,353,220,096)

b. International Development Association

Budget Authority for Sixth Replenishment	700,000,000

c. International Finance Corporation

1977 Capital Increase

Budget Authority	14,447,900

d. Inter-American Development Bank

1980 Capital Increase

Budget Authority for paid-in capital	48,053,477
Program Limitations for callable capital	(609,582,129)

e. Fund for Special Operations: 1980 Replenishment

Budget Authority	173,177,000

f. Asian Development Bank

1977 Capital Increase

Budget Authority for paid-in capital	4,713,851
Program Limitations for callable capital	(42,632,409)

g. Asian Development Fund: Second and Third Replenishment

Budget Authority	116,097,869

h. African Development Fund

Budget Authority	58,333,333
Total Budget Authority	1,261,712,470
Total Program Limitations	(2,339,943,029)

IBRD loans go primarily to nations in Latin America, East Asia, and the Mediterranean area. IDA credits, by contrast, go mostly to South Asia and Sub-Saharan Africa.

During fiscal 1981 the World Bank Group committed a total of $13,391 million to assist the economic and social development of its borrowing nations. Lending from the IBRD amounted to $8,943 million in fiscal 1981, and new IDA credits reached $3,683 million. New IFC commitments were $765 million in the latest fiscal year.

The IBRD and IDA continue to emphasize the adoption of efficient economic policies by borrowing countries and increased reliance upon the private sector. (See Chapter III.E. for an analysis of developing countries' policies.) agriculture and rural development remained the most important single sector of IBRD and IDA lending in fiscal 1981. New IBRD and IDA loan commitments in this key area were $3,438 million in fiscal 1981, or 27 percent of total IBRD and IDA lending during this period. Other important sectors of IBRD and IDA lending in fiscal 1981 included development finance ($1,122 million); education ($755 million); industry ($761 million); power ($1,665 million); and transportation ($1,164 million). IBRD and IDA lending for oil, gas, and coal was $1,212 million in fiscal 1980, or 9.6 percent of total new commitments. IBRD and IDA structural adjustment lending in fiscal 1981 was $517 million, or 4.1 percent of total lending.

A.W. Clausen, formerly President and Chief Executive Officer of the Bank of America, replaced Robert S. McNamara as President of the World Bank Group and Chairman of the Boards of Executive Directors on July 1, 1981. President Reagan and Secretary of the Treasury Donald Regan addressed the 36th Joint Annual Meeting of the International Monetary Fund and the World Bank Group in Washington, D.C., on September 29 and 30 respectively. Their speeches outlined the Administration's policy approach regarding future American participation in the World Bank Group and in the regional development banks. (See Section III.B.1. for a description of this policy approach.)

International Bank for Reconstruction and Development (IBRD)

In FY 1981 the IBRD made new loan commitments of $8,943 million to assist 139 projects in 48 developing nations. The IBRD also played an important role in extending technical assistance, and in helping to coordinate bilateral aid flows to numerous major developing countries.

IBRD loans go primarily to the middle-income developing nations. These loans generally have a maturity of 20 years or less, and a grace period of five years. They bear a fixed rate of interest which is calculated to exceed the IBRD's borrowing

costs and, therefore, to yield a profit to the IBRD. There has never been a default on an IBRD loan.

The regional distribution of new IBRD loan commitments in fiscal 1981 was as follows:

-- East Africa, $304 million for 12 projects;

-- West Africa, $640 million for 12 projects;

-- East Asia and Pacific, $1,826 million for 26 projects;

-- South Asia, $400 million for 1 project;

-- Europe, Middle East, and North Africa, $2,451 million for 37 projects; and

-- Latin America and the Caribbean, $3,322 million for 51 projects.

The five developing nations which received the largest amounts of new IBRD loan commitments in fiscal 1981 were: Mexico ($1,021 million); Turkey ($722 million); Brazil ($719 million); Indonesia ($582 million); and Colombia ($550 million).

International Development Association (IDA)

IDA made new loan commitments of $3,683 million to assist 107 projects in 43 of its member developing countries during FY 1981.

IDA credits go to the poorest nations, which are located primarily in South Asia and Sub-Saharan Africa. IDA credits must meet all of the same economic, financial, and social standards as IBRD loans. IDA credits have maturities of 50 years, with a ten year grace period. They carry no interest, but have an annual service charge of 0.75 percent on the disbursed portion of each credit.

A member nation is generally eligible for IDA credits only if it meets all of the following criteria:

-- an annual per capita gross national product of less than $680 in 1979 dollars (the vast majority of IDA credits go to nations with much lower income levels);

-- ability to use the credit effectively; and

-- lack of creditworthiness for non-concessional debt such as IBRD loans.

Approximately 60 poor nations are currently eligible for IDA credits.

Some IDA recipients, such as India, are "blend" countries, as they have sufficient creditworthiness for a limited amount of non-concessional IBRD financing. The US encourages IDA recipients to increase their use of IBRD loans relative to IDA credits as soon as possible. Examples of former IDA recipients which have switched over to accepting only IBRD and IFC resources are Ecuador, Indonesia and Thailand.

The five largest recipients of new IDA credit commitments in fiscal 1981 were: India ($1,681 million); Bangladesh ($299 million); Egypt ($198 million); Sri Lanka ($167 million); and Pakistan ($152 million).

IDA lending is financed primarily from contributions in convertible currencies made by the major non-communist industrial nations during replenishment exercises. The capital-surplus Arab nations are also increasingly significant IDA donors. Other sources of IDA funding include transfer of a portion of the IBRD's net income, and repayments of principal on past IDA credits.

IDA lending in fiscal 1981 was constrained by a delay in the effectiveness of the sixth replenishment. Originally scheduled to begin July 1980, the replenishment did not officially come into effect until August 1981, when the United States agreed to contribute $500 million, plus an additional $2.7 billion subject to obtaining the necessary appropriations. Actual lending operations were not significantly reduced, however, due to a bridging arrangement under which other donors provided $2.5 billion in advance contributions. In addition, disruptions to the loan preparation and approval process were minimized by consideration of projects on close to the original schedule, with approval made contingent upon the future availability of funds. However, it now appears probable that due to recent Congressional actions the Sixth Replenishment will be stretched out over a period longer than the originally envisaged three years. In addition, other donors have indicated that they will reduce future installments by the same proportion as does the United States.

International Finance Corporation (IFC)

During FY 1981 the IFC assisted 60 projects in 32 developing nations. The IFC made loans of $720 million and equity investments of $46 million during this period. The total investment in these projects was several times the amount committed by the IFC.

The IFC is the World Bank Group component which most directly aims to promote productive private sector activity in its developing member countries. The United States strongly supports the IFC, viewing its promotion of private sector

activity as essential to the development process, and hopes that the IFC's role will be enhanced in the future. The United States is the largest contributor to the IFC, having subscribed to 31.7 percent of the IFC's total capital as of June 30, 1981.

The IFC is one of the few international organizations which can make both equity investments and loans without government guarantees. This permits the IFC to provide the type of financial assistance best suited to the special needs of each project. The IFC also provides important technical assistance to those numerous developing countries which wish to encourage domestic and foreign private investment.

The IFC has its own professional staff, and is legally and financially distinct from the other members of the World Bank Group. During the World Bank's 1981 fiscal year the IFC had net earnings of $19.5 million.

Regional Development Banks

Inter-American Development Bank (IDB)

The IDB is a major source of development assistance to Latin America and Caribbean countries. The IDB provides funds for lending at both near-market and concessional terms.

During FY 1981, the IDB committed a total of $2,370 million in loans, an increase of 9 percent over the level of commitments in the preceding fiscal year. Of this total,$1,700 million was on conventional terms from the Ordinary Capital and Inter-Regional Capital resources of the Bank; and $649 million was lent on concessional terms by the Fund for Special operations (FSO). The IDB also committed $21 million in resources from special accounts and funds (such as the Venezuelan Trust Fund) which it administers on behalf of donors.

As of September 30, 1981, cumulative lending by the IDB since it began lending in February 1961 amounted to $18.7 billion, of which $7.7 billion remained outstanding. Since February 1961, $6.5 billion had been loaned from the Ordinary Capital account, $3.6 billion from the Inter-Regional Capital account, $7.4 billion from the Fund for Special Operations, and $1.2 billion from other sources (primarily the US Social Progress Trust Fund and the Venezuelan Trust Fund).

IDB lending in FY 1981 covered 66 projects in 20 countries. This lending was concentrated in projects in power and energy (approximately 35 percent of all FY 1981 loans) and agriculture (approximately 30 percent); however, the breakdown of loans into sector categories is somewhat misleading as many IDB projects are multipurpose in nature.

IDB lending is financed primarily through resources derived from borrowing in international private capital markets, the paid-in capital subscriptions of member countries, retained earnings, and member contributions to the FSO. As of September 30, 1981, the subscribed capital stock of the IDB amounted to $15.2 billion (of which $1.7 billion was paid-in and $13.5 billion was callable) and FSO resources totalled $7,670 million. The US share of IDB capital was $5,255 million or 35 percent of the total. Including contributions authorized, but not yet appropriated by Congress, the United States has accounted for $4,340 million, or 57 percent, of total contributions to the FSO.

In 1978, a Fifth Replenishment had been agreed to by the United States and other IDB members to cover lending by the IDB for the calendar years 1979-82. The Fifth Replenishment totals $9.75 billion, consisting of $8.0 billion for an increase in the IDB's capital stock and $1.75 billion for the FSO. Member governments will begin meetings in January 1982 to consider a Sixth Replenishment of IDB resources.

Asian Development Bank (ADB)

The ADB provides loans on conventional and concessional terms to promote economic development in the Asian and Pacific Region. In US FY 1981, the ADB committed a total of $1,484 million, approximately $50 million more than was committed the previous fiscal year. Of this amount, loans on conventional terms from ordinary capital resources totalled $1,001 million and loans on concessional terms were $483 million. In FY 1981, over 90 percent of concessional lending went to countries with a per capita income of less than $300 (in 1979 US dollars). Cumulative ADB lending as of September 30, 1981 amounted to $8,180 million, of which $5,720 million represented loans from ordinary capital resources and $2,460 million was from special funds. As of September 30, 1981, the ADB had $4,600 million in loans outstanding.

During FY 1980, the ADB committed loans for 59 projects in 15 countries. Indonesia ($394 million), Thailand ($150 million), Malaysia ($149 million), the Philippines ($147 million), and Korea ($141 million) were the largest ordinary capital borrowers and accounted for approximately 98 percent of ordinary capital commitments. Pakistan ($177 million), Bangladesh ($105 million), Sri Lanka ($63 million) and Burma ($51 million) were the largest borrowers of ADB concessional resources.

ADB lending in calendar year 1980 was concentrated in agriculture and agroindustry (32.6 percent of all loans) and in energy (26.6 percent). Transport, communication and development banks received an additional 24 percent.

ADB ordinary capital lending operations are financed primarily by paid-in capital subscriptions and resources from governments, central banks and private capital markets which are backed by the callable capital guarantees of ADB members. Asian Development Fund (ADF) resources, which are used for concessional loans, are contributed by member countries. During FY 1981, the United States subscribed $248 million to the Ordinary Capital of the ADB, of which $24.8 million was paid-in and $223.2 million was callable, raising its total share of ADB capital to $1,463 million. The United States contributed $114.78 million to the ADF raising its total contribution to the ADF to approximately $496 million.

During FY 1981, the ADB began discussions on a Third General Capital Increase, which would significantly expand the Bank's capital stock, and a Third Asian Development Fund replenishment which would permit continued lending from the Bank as a concessional window. Negotiations for these resource increases are expected to be completed in FY 1982.

At the 14th Annual Meeting, which was held in Honolulu, Hawaii, the ADB Governors welcomed the admission of Vanuatu (formerly New Hebrides) as the 44th member of the Bank.

African Development Fund

The African Development Fund (AFDF) was established in 1973 as the concessional lending affiliate of the African Development Bank (AFDB). The purpose of the AFDF is to contribute to the economic and social development of the poorest African nations. Except under extremely unusual circumstances, the Fund lends only to countries whose per capita gross national product is less than $550 (measured in 1976 US dollars).

The United States joined the AFDF in November 1976 with an initial contribution of $15 million and has since contributed an additional $102 million to the Fund. Membership in the AFDF includes the United States, 13 European countries, Argentina, Brazil, Canada, Japan, Korea, Kuwait, Saudi Arabia, the United Arab Emirates. The AFDB is also a member and represents the 50 African members of the bank. Total resources pledged to the AFDF as of September 30, 1981, amounted to $1,280 million.

During fiscal year 1981, AFDF loans totalled $250 million, distributed among 18 African countries. The major borrowers from the AFDF in fiscal 1981 were Rwanda, Mozambique, Sierra Leone and Egypt.

AFDF lending in fiscal year 1981 supported development projects in the sectors of agriculture, transportation, education and health and public utilities (water supply, sewerage and rural electricity). Agricultural projects --

ranging from rural development and extension of farming, rehabilitation of plantations and infrastructure works -- absorbed the largest share (41.6 percent) of the loan resources. This pattern of lending is expected to continue because the prospects for improving living conditions in recipient countries depend heavily on progress in agricultural development. Transportation and education and health were the next most important sectors of AFDF lending during the period under review, accounting for 23.7 percent and 18.4 percent of total lending, respectively.

In 1979 the Board of Governors of the African Development Bank recommended that the AFDB's charter be amended to permit non-regional countries to become members. Legislation was enacted in 1981 which authorized US membership in the AFDB with a subscription of $359.7 million -- 5.68 percent of the AFDB's total capital and 17.04 percent of the $2.1 billion non-regional subscription. Since these amendments are still awaiting ratification by the current AFDB membership, the US has not joined the Bank.

Since the Fund will run out of commitment authority by the end of calendar year 1981, negotiations for a third replenishment of AFDF resources (AFDF III) were begun. No agreement had been reached on AFDF III by the end of FY 1981.

Chapter IV.B.

INTERNATIONAL ORGANIZATIONS AND PROGRAMS

IV.B.1. UNITED NATIONS PROGRAMS

The United Nations system, comprising UNDP, UNICEF, and more than thirty Specialized Agencies and other entities, continues to play a highly significant role in development assistance activities throughout the World. UN development programs complement bilateral aid programs of the United States and other major Western donors and, through their technical assistance for institution-building and pre-investment feasibility efforts, increase LDC absorptive capacity and otherwise improve prospects for significant public and private sector participation in the development process.

Reports received regularly from US embassies and AID missions throughout the World indicate that UN development performance compares favorably with that of the major bilateral donors. The accreditation of UNDP Resident Representatives to some 150 developing countries and territories permits much broader global coverage than any bilateral donor could hope to attain. The UN system is also strengthening its on-site capacity to better assure that project proposals are consistent with local development priorities and capabilities, that they are well coordinated and do not duplicate or conflict with other UN-funded activities, and the projects are implemented with adequate attention given to monitoring progress and evaluation. As in the case of bilateral programs, UN development assistance is subject inevitably to the same kinds of operational constraints. Project design is not always flawless, and there are often delays in recruitment of project technicians and in the delivery of project-related equipment. However, despite the comparatively modest total dollar cost of UN technical assistance, UN development inputs sometimes yield disproportionately high returns. In part this is because recipient countries feel that they have a greater voice in the country programming dialogue for UNDP-sponsored activities than is usual for bilateral programs. UN-funded technicians consequently tend to enjoy a more prestigious place in their countries of assignment than those funded under bilateral programs, being perceived as generally more detached from

specific donor country policies and objectives. This often results in the assignment of UN-funded technicians to government planning ministries and other highly sensitive positions which are not generally open to bilaterally-funded personnel. Furthermore, the UN can draw upon a much wider range of experts, who have not only the technical qualifications but frequently also have the requisite language skills and familiarity with the culture of their countries of assignment.

Nor, in terms of East-West issues, can the presence of UN technical assistance activities in some 150 developing countries be lightly discounted. This presence not only pre-empts a greater role for Soviet "development" concepts but also permits exposure to Western standards, particularly important for those LDCs currently under Soviet domination.

The largest share of United States assessed and voluntary contributions goes to UN institutions and programs which serve primarily development objectives. This heading includes (but is not limited to,) the following institutions:

United Nations Development Program (UNDP)

UNDP, headed by former U.S. Congressman Bradford Morse, is the major international instrument for the delivery of technical assistance to the developing world. Since its creation in 1966, UNDP has provided more than $4.5 billion in technical assistance to over 150 countries and territories.

UNDP provides a coordinating focus for the work of the UN Specialized Agencies through its programming and funding activities. Operating through the Specialized Agencies and other UN bodies, it provides technical assistance in accordance with established developing countries' national development priorities. The funds which UNDP allocates for the recipient countries are embodied in the respective Country Programs, which constitute agreed plans of action.

The UNDP Country Programming process entails the participation and commitment of the recipient countries. The UNDP/Specialized Agency input for any given project constitutes only a portion of the total costs; the balance being provided by the recipient country in the form of local currency, counterpart personnel, office space, etc.

In order to promote the fullest possible coordination --

and thus to increase the overall effectiveness -- of the activities of the numerous UN Specialized Agencies and other UN bodies serving as Executing Agencies on behalf of UNDP, and to assure acceptable standards of operation and observance of agreed national development priorities and recipient country counterpart commitments, the United States Government has made a particular point of channeling its voluntary contributions for technical assistance principally through UNDP rather than through UN system assessed budgets and other accounts. This is intended to reinforce UNDP's central in-country coordination role as well as to assure the application of UNDP controls over project design and implementation (including established procedures for project formulation, monitoring, and evaluation).

The UNDP liquidity crisis in the mid 1970s encouraged a number of UN bodies to promote direct contributions to their own technical assistance accounts, in order to reduce reliance on UNDP for funding as well as to secure greater latitude in their relationships with the recipient countries. Another trend flowing from this period is the increasing effort to use the regular budgets of the Specialized Agencies (to which the U.S. pays a 25% assessed share) for financing technical assistance projects independently of UNDP controls. The United States Government has traditionally questioned the proliferation of UN system special accounts and has opposed recourse to regular (assessed share) budgets for the funding of technical assistance. It nevertheless recognizes that diminution of UNDP financial resources will likely increase pressures for "assured, predictable and continuous" funding and undercut the central coordinating and control role which the U.S. Government seeks to preserve for UNDP.

The volume of UNDP technical assistance expenditures grew from $337 million in 1977 to nearly $669 million in 1980. Of the thousands of projects undertaken annually, most are directed toward improving human and institutional capabilities. Through its Executing Agencies UNDP provides both technical expertise in such vital fields as agriculture, health and education, as well as in lesser-known initiatives such as diamond minerology and appropriate technology for building better homes from local materials. Heavy emphasis is placed on training - both vocational and academic. UNDP thus complements the much larger programs, undertaken by the multilateral development banks and bilateral donors, by strengthening recipient country capabilities and enhancing prospects for private and public investment.

UNDP expenditures in 1980 were in the following sectors:

	($ 000)	Percent
Agriculture, Forestry & Fisheries	170,839	25.55
Transport & Communications	89,750	13.40
General Development Issues Policy & Planning	78,774	11.78
Natural Resources	76,934	11.51
Industry	66,371	9.93
Education	47,068	7.04
Employment	40,465	6.06
Health	29,467	4.41
Science & Technology	25,745	3.84
International Trade and Development Finance	15,549	2.32
Human Settlements	14,429	2.15
Culture	6,080	0.91
Social Conditions & Equity	5,312	0.79
Humanitarian Aid & Relief	1,809	0.28
TOTAL	668,773	100.00

While the U.S. Government considers UNDP as an attractive and effective mechanism for delivering multilateral technical and pre-investment assistance, it also recognizes that US interests are directly as well as indirectly served by UNDP activities. The strengthening of recipient country capabilities through UNDP-funded assistance encourages self-help and greater mobilization of domestic resources within the countries concerned. In the long run, this leads to improved trade prospects for the United States as well as to greater national independence on the part of the recipient countries in their relations with the Soviety bloc. During 1980 approximately 10% of experts hired for field projects were American. With orders valued at $39.3 million, the United States was by far the largest supplier of equipment for UNDP projects. Subcontracts awarded to American firms totalled $15.7 million (21% of total awards made in 1980). UN Fellows sent to US training institutions reached the figure of 1,599 - making the United States the most important locus for UNDP-funded overseas training (13.7% of training fellowships). Together with salaries paid to US nationals, services, rentals and supplies, UNDP regularly spends more in the United States than the amount of the US annual contribution ($126 million for 1981). A more comprehensive financial appraisal cannot be made because of the difficulties in estimating precisely the value of private and public investment engendered by UN activities, and the preferences for US products, technology and methodology which low key exposure through UNDP promotes.

The following are illustrations of the UNDP approach:

-- For a project in Rwanda to improve dietary habits and provide preventive health care for over 400,000 people, UNDP trained 350 nutritionists.

-- For the Sudanese ministry of finance, UNDP-funded training upgraded the skills of 100 senior and mid-level accountants and 500 functionaries serving as cashiers, bookkeepers and tax officers.

-- A UNDP joint research project with the Philippine government in detecting, diagnosing and preventing coconut palm diseases will benefit one-third of the population directly or indirectly supported by copra production.

UNDP has the central funding and coordinating role within the UN system. From the U.S. standpoint, it is an attractive and effective mechanism for providing multilateral aid free of political, social and cultural inhibitions. The United States has always been the leading contributor, and continues to provide over $100 million annually. The current climate of severe budget stringencies, however, entails a reduction in the previously planned increases in contributions to UNDP for 1982-86.

United Nations Children's Fund (UNICEF)

Begun as an emergency program for European children in the wake of World War II, UNICEF had by the early 1950s evolved into a long-term voluntarily funded, humanitarian development program. Its main objective has been to improve the conditions of children in developing countries, to enable them to become productive members of society. UNICEF works closely with governments in 111 countries, often in collaboration with UNDP, WHO and other multilateral organizations as well as bilateral aid agencies.

Three types of cooperation characterize UNICEF's work:

-- assistance in the planning and design of basic services for children;

-- delivery of supplies and equipment for these services; and

-- provision of funds for the training of local personnel needed to work on behalf of children (teachers, nutritionists, health and sanitation workers, etc.).

A major portion of UNICEF's resources are devoted to

helping the poorest of the poor to meet basic human needs. In collaboration with WHO, UNICEF has pioneered concepts of "primary health care" and other "basic services" in rural areas. In designing programs, UNICEF emphasizes self-help and direct participation by the needy in improving their conditions.

Illustrative examples of UNICEF activities for 1981 are:

-- Programs to provide assistance to 51,100 health centers and the training or orientation, in some degree or other, of 115,800 national personnel.

-- Applied nutrition programs in 175,200 villages, involved with equipping nutrition centers and demonstration areas, community and school orchards and gardens, fish and poultry hatcheries, and seed production units.

-- Equipping more than 84,300 primary schools, secondary schools, teacher-training institutions, and vocational training centers with modern teaching aids -- including maps, globes, science kits, blackboards, desks, reference books and audiovisual materials.

-- Supplying equipment to more than 17,800 child welfare and day-care centers, 3,500 youth centers and clubs, and 6,800 women's centers or cooperatives.

In 1980 UNICEF received $261 million (excluding separate Kampuchean relief programs funds), including some $56 million from private, nongovernmental sources. The percentage breakdown of UNICEF program activities for that year was as follows:

-- Child health (including family planning)	28.5
-- Water supplies	25.1
-- Social welfare services for children	6.9
-- Formal education	12.8
-- General	9.0
-- Child nutrition	9.3
-- Non-formal education	4.2
-- Emergency relief (not including Kampuchea)	4.2
	100.0

Due to the world economic situation, UNICEF has been compelled to trim back planned efforts to expand its programs and the real increase in deliveries during 1982-1983 will likely amount to one percent.

The US Government has been a prime supporter of UNICEF since its inception, and the UNICEF Executive Director (James Grant) is an American national. Although the United States

has been the largest single contributor until recent times, its proportional share of government contributions declined from 69% in the postwar period to 19.3% in 1980. In 1980 Sweden succeeded the United States as the largest single donor, with an official contribution of $35 million compared with the US contribution of $34.6 million. In 1980, UNICEF received $11.25 million from private American donors through the sale of greeting cards and other fund-raising activities whose success reflects the support UNICEF derives from the American public at large.

World Health Organization (WHO)

The World Health Organization, based in Geneva, functions as the chief coordinating authority on international public health. It works to build strong national health services to enable individual countries to become self-reliant in meeting their own essential health needs. Since its formation in 1948, WHO has worked to eradicate or control endemic and other widespread diseases including smallpox, malaria, tuberculosis, and venereal diseases. It has prompted the worldwide planning of health services, particularly in the areas of nutrition, immunization, environmental sanitation, maternal and child care, and mental health. Its experts have generated advanced programs which train community health workers, and retrain medical and paramedical personnel in low cost technologies. These programs have produced remarkable gains for the traditionally underserved rural and tropical areas which are particularly prone to outbreaks of highly communicable diseases. WHO has also coordinated the development of international standards for medical diagnostic procedures and promoted national regulations governing food, biological, and pharmaceutical products.

A major shift of emphasis in WHO strategy occurred in 1977 when the World Health Assembly adopted an ambitious new goal for the Organization -- "Health for all by the year 2000" or, more specifically stated, attainment by all the World's population by the year 2000 of a level of health that will permit them to lead socially and economically productive lives. This goal has struck a responsive chord in industrialized as well as developing countries. The World Health Assembly in 1981 adopted a "global strategy" for achievement of "health for all," and is elaborating useful intermediate goals and indicators for progress.

This shift in WHO's emphasis means that the central role of WHO is evolving from primarily the provision of technical assistance to one of health coordination and development of new methodologies. Strengthening indigenous health management and planning capacities in developing countries is a main

feature of this new direction, with WHO providing training, helping health ministers to identify priority health problems, and helping member countries to obtain and use external assistance. This new approach has the full encouragement of the US Government.

While the "Health for All" strategy highlights the needs of neglected people within developing countries, WHO is also concerned with health problems of industrialized societies. It has initiated, at US request, a new International Program on Chemical Safety. It plays a major role in work on the United Nations International Safe Drinking Water and Sanitation Decade. WHO has programs dealing with drug abuse, alcoholism, smoking, and mental health. Through its affiliated International Agency for Research on Cancer (IARC), in Lyon, France, WHO provides important work on the epidemiology and causes of cancer. Its work in maternal and child health led in 1981 to adoption of a voluntary code of marketing practices of breastmilk substitutes. (The United States voted against the code because it included provisions which, judged in the US context, raised questions under the US Constitution and laws, and also because the United States considered it unwise for WHO to become involved in quasi-regulatory activities regarding the private sector.)

WHO has the largest regular budget of any UN specialized agency. In May 1981 it adopted a budget for 1982-83 of nearly half a billion dollars. It expects to receive almost an equal amount in voluntary contributions from member governments, private agencies, and other international bodies such as UNDP and UNFPA. WHO is also initiating a Health Resources Group to coordinate the many multilateral and bilateral institutions which provide international health assistance; the aim is to avoid duplication and to channel resources in the most effective way, particularly taking into account the "health for all" strategies of WHO member governments.

Food and Agriculture Organization (FAO)

The Food and Agriculture Organization (FAO) is a cooperative grouping of 147 member countries pledged to:

-- raise levels of nutrition and standards of living of the peoples under their respective jurisdiction;

-- improve production and distribution of all food and agricultural products; and

-- improve the condition of rural populations; and thus contribute to an expanding world economy and ensure humanity's freedom from hunger.

In serving the needs of its member nations, FAO has become the largest single organization providing agricultural technical assistance to developing countries. FAO focuses on all sectors of agriculture, including forestry, fisheries, crops and livestock. It maintains working contacts with the other major international organizations concerned with agricultural development.

FAO activities may be divided into several broad categories or functions:

-- providing a forum for international discussions on world food and agricultural problems;

-- collecting, analyzing, and disseminating a wide range of data on food, agriculture, and rural affairs of interest to its member countries; serving as the focal point within the UN system for such data, including the operation of information systems AGRIS and CARIS, and for publication of relevant documents and periodicals;

-- providing an early warning system and a focal point for international consultations on serious food situations.

-- providing technical assistance and training opportunities for developing countries in all aspects of food and agricultural development.

FAO income is derived from two sources: the assessed contributions from member countries and voluntary extra-budgetary contributions by governments, international organizations, and various nongovernmental donors. During 1980 the United Nations Development Program (UNDP) provided $167 million for projects to be implemented by FAO in more than 100 countries. In addition, "Trust Fund" activities of FAO accounted for total spending of $81 million in 1980. The Organization also administers a Technical Cooperation Program (TCP), financed from its own regular budget for which $32.6 million were allocated in 1980-81. Under the TCP the FAO provides prompt short-term technical assistance, training, and commodity assistance to countries with unforeseen needs or facing emergency situations.

FAO responds to the urgent need for capital for agricultural development by helping countries to identify and formulate investment projects. For this purpose FAO works closely with a number of international and national financing institutions, including the multilateral development banks, the International Fund for Agricultural Development (IFAD), Arab development funds, and national development banks. Since 1977, FAO's Investment Center has helped countries to prepare development projects with a total investment cost of about

$12.6 million. About half of this amount has been provided in loans and credits from the financing institutions with which FAO cooperates, the remainder from the countries themselves.

Examples of FAO's principal activities, largely under regular program funding include:

-- plant production and protection;

-- animal production and health;

-- fertilizer;

-- land and waste resources;

-- fisheries;

-- food policy and nutrition;

-- forestry;

-- social and economic policy programs; and

-- agrarian reform and rural development.

World Food Program (WFP)

The World Food Program (WFP) was established in 1962 by the United Nations and FAO to provide food aid in support of agricultural and rural development in developing countries. The Program's resources come from voluntary pledges from over 100 participating countries in the form of commodities and cash for services such as shipping. Two thirds are in commodities and one third in cash and services. The Program's "food basket" contains about 50 commodities including cereals such as wheat, maize and sorghum and also protein-rich foods such as milk, meat, cheese, fish and poultry as well as edible oils, sugar and tea.

Beginning with total resources of $85 million in 1963-65, the target figure has gradually increased. For 1981-82 the pledging target is one billion dollars, against which pledges exceeding $700 million have so far been recorded. The resources made available to WFP from its inception to December 1980 totalled $4.09 billion.

In the 18 years of the Program's life up to the end of 1980, 1,040 projects in 113 countries had been approved at a total cost to WFP of over four billion. The Program's contribution is only a part of the total cost of a project, the remainder - often three or four times the value of the WFP

input - being borne by the beneficiary country. But WFP's aid acts as a stimulus which often makes the difference as to whether a project can be started or not.

To carry out the major objective of supplying food for promoting social and economic development, four types of projects are aided:

-- human resources development, such as child feeding and school lunch programs;

-- infrastructure development, such as irrigation and road projects, in which part of the worker's earnings is paid in food;

-- production development projects, such as the supply of feed grains to support livestock and poultry industries; and

-- resettlement programs to sustain displaced groups until their first crops can be harvested on land made availabe to them.

International Labor Organization (ILO)

The International Labor Organization (ILO) is a lead agency in the UN system for technical assistance programs relating to both urban and rural employment creation in developing countries. The ILO provides programs in vocational training and management, employment promotion, industrial relations, labor administration, worker education, working conditions and environments, social security, and sectoral activities including cooperatives, hotel and tourism training, and training for maritime workers. The funding level for ILO technical assistance was approximately $99.6 million in 1981, of which $4,461,000 (4.48%) comes from the regular budget. Most of the rest comes from the UNDP which funds many ILO activities; some money is provided by UNFPA and some from trust funds (bilateral funding for specific projects channeled through the ILO).

United States participation in the work of this 62 year-old institution dates back to 1934 when the U.S. first became a member. In the 1970s the U.S. became concerned about increasing politicization of conferences and lack of impartiality in the treatment of human rights matters, and it was deemed necessary to withdraw (1977). Significant progress in addressing these concerns was noted afterwards, and the United States resumed membership in 1980.

The ILO's developmental activities are generally

supportive of American foreign policy interests. A principal emphasis in placed on international treaties and recommendations of the annual International Labor Conference concerning the welfare of working people and their families. The United States plays an active role in drafting such conventions.

United Nations Industrial Development Organization (UNIDO)

UNIDO has the UN mandate for promoting industrialization in the developing countries. It is a major supplier of technical assistance for industrialization, serving as the third largest executing agency for UNDP-funded projects and also operating from trust funds and the voluntary United Nations Industrial Development Fund.

The technical assistance activities of the organization cover a wide range, are typically small in scale, and are, in the US view, the most useful of the organization's activities. The organization delivered $76 million in such assistance in 1980, through over 1,500 projects. The organization also conducts informal "consultations" in individual industrial or managerial sectors designed to identify and influence trends in industrial development. The participation of US company representatives often brings to the attention of the other participants the concerns and needs of the private sector in industrial development. UNIDO also conducts studies and research on global industrial issues. The U.S. has serious reservations as to how effectively these latter activities serve the development needs of LDCs.

UNIDO is seeking conversion to Specialized Agency status. The United States has signed the agreement to this effect and President Reagan has submitted it to the Senate for ratification. The main advantage of such an arrangement would be to increase the ability of major contributors to influence the management of the organization.

United Nations Educational, Scientific and Cultural Organization (UNESCO)

UNESCO was created in 1946 to promote collaboration among Member States in the fields of education, science, and culture. To achieve this objective, UNESCO sponsors international conferences, finances expert meetings and research, and provides technical assistance. Approximately 60 percent of UNESCO's activities can be considered development-related. The major thrust of UNESCO's programmatic activities shifted in the late 1950's from intellectual cooperation and exchange to development priorities of the poorer Member States.

UNESCO's total budget for 1981-83 is one billion dollars, which includes $380 million in extra-budgetary funding from UNDP and other UN agencies.

The United States is the major contributor to UNESCO, providing 25 percent of its assessed budget (over $49 million per year for the 1981-83 budget period). US scientists and educators play a prominent role in UNESCO-sponsored meetings and UNESCO-funded research. In addition, UNESCO provides fellowships to American students abroad and foreign students in the U.S., and procures a substantial amount of equipment in the U.S.

Major programs for 1981-83 included:

-- Coordination of literacy project in Latin America and the Caribbean designed to achieve universal primary education and eradicate adult illiteracy by the year 2000;

-- Man and the Biosphere (MAB), a collection of over 100 field activities seeking practical solutions to the problems of natural resource management, land development, and rural and urban planning.

-- International Geological Correlation Program (IGCP), research on the rational use of the earth's mineral and energy resources;

-- International Hydrological Program (IHP), research and technical assistance on the exploitation and conservation of water resources, especially in rural areas and semi-arid regions;

-- International Program for the Development of Communications (IPDC), designed to catalogue and disseminate information about development needs, resources and priorities. A major US goal in 1982 will be to ensure the success of the IPDC, in focusing the distribution of information and communciation resources into developmental channels and away from fruitless ideological debate.

United Nations Capital Development Fund (UNCDF)

UNCDF was created in 1966 for the purpose of providing, on a grant basis, seed money for catalytic demonstration projects for the poorest people in the poorest countries. Operating under the administration of the UN Development Program, the UNCDF supports self help projects too small for the multilateral development banks to fund and promotes the application of appropriate technology concepts. By the close of 1980, UNCDF was assisting 168 projects in 35 countries.

Project approvals, totalling $52.8 million in 1980, reflected the following emphases:

-- Agriculture, Fisheries and Livestock	36%
-- Drinking Water Supplies	15%
-- Small Industries and handicrafts	6%
-- Rural Health Facilities	8%
-- Low-Cost Housing	9%
-- Rural and Feeder Roads	13%
-- Rural Schools	6%
-- Rural Electrification	5%
-- Social Welfare	1%
-- Transport and Communications	1%
	100%

UNCDF priorities coincide with US interests in bringing grassroots level assistance to the poorest people with emphasis on appropriate light capital technologies. The United States became a contributor in 1978 with a pledge of $2 million, which has been renewed for the same amount in succeeding years.

Voluntary Fund for the UN Decade for Women

The Voluntary Fund for the UN Decade for Women is a developmental assistance fund which finances programs and projects specifically aimed at helping the poorest of the world's women. Emphasis is placed on projects which are innovative or catalytic in nature. The main objective is to provide seed money for projects which will grow and become self-supporting, or, once evaluated, will be adopted or emulated by larger development funds. In 1981 the major areas of investment by the Fund were in development planning, forestry, fuel-saving stoves, forest industries, and income-raising activities including agro-industrial, small animal husbandry and cottage industry.

To avoid duplication with other UN system projects, all Voluntary Fund proposals are carefully coordinated through the

UN regional Economic Commissions (if they involve several countries,) or through UNDP (involving a single country). In 1981 more than seventy percent of these projects belonged to the latter category, with screening, monitoring and disbursement of funds undertaken by UNDP.

Major UN-Sponsored Development Conferences in 1981

Two major conferences were sponsored by the United Nations in FY 1981: the UN Conference on New and Renewable Sources of Energy (Nairobi, August 10-21), and the UN Conference on Least Developed Countries (Paris, September 1-14). Both had useful results, as discussed earlier in Chapters II.F. and III.A.

IV.B.2. INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Description

The International Fund for Agricultural Development (IFAD) was established in December 1977 as a Specialized Agency of the United Nations with the purpose of assisting developing countries through the provision of loans and grants to expand food and agricultural production. IFAD gives highest priority to projects in the poorest food-deficit countries, and concentrates its resources on activities that are specifically designed to assist small farmers and the landless poor. The United States provided $200 million of IFAD's original funding of just over $1 billion. Other developed countries provided approximately $370 million and the members of OPEC contributed $435 million.

The idea for the Fund was first proposed at the 1974 World Food Conference which focussed governmental and public attention on the critical food and nutrition problems facing the developing countries. IFAD represents the first, and so far the only, major commitment on the part of the OPEC countries to give substantial support to an international organization in which their influence is not commensurate with their financial contributions.

The Fund is unique in its tripartite structure, in which the developing country members have an equal voice in the operations of the Fund along with each of the two major donor groups. Total membership of the Fund comprises 135 nations, including the twenty members of Category I (the developed countries), twelve members of Category II (OPEC) and 103 developing countries in Africa, Asia and Latin America.

US Participation

The United States was among the first countries to pledge support for the Fund during the Ford Administration, and one of the first to obtain the necessary legislative approvals for a contribution. In consequence, the United States exercised a predominant influence during the formative period of IFAD on all aspects of its organization, policies and objectives. As the largest single contributor, the United States is represented on IFAD's Executive Board and in this capacity continues to play an active role in guiding the Fund's operations and policies.

The Fund's lending policies and criteria, with the special focus on small farmers, the landless and the rural poor, are

consistent with the agricultural development policy adopted by the United States to guide its own bilateral assistance programs. Similarly, as a result of US insistence that the Fund avoid duplicating the work of other international organizations, IFAD was specially chartered to rely to the maximum extent feasible on the staff and expertise of other institutions while keeping its own organization and staff as small as possible.

Underlying US participation and support for IFAD are four interrelated US interests:

-- Increasing the flow of resources and the global development focus on food and agriculture as a means of alleviating world hunger and malnutrition;

-- Strenthening, in particular, the role of small farmers and the landless poor in the productive process with a view to maximizing private initiative and assuring that the benefits of increased production accrue to those most in need of development assistance;

-- Encouraging non-traditional aid donors, particularly the OPEC countries, to play a cooperative and constructive development role and to assume a larger responsibility for providing development assistance within a multilateral framework;

-- Improving relations with the developing countries as a group by supporting a constructive international effort which the developing countries view as a significant step in meeting their needs.

Selected Major Developments in 1981

During 1978-1980, IFAD's initial funding period under its Articles of Agreement, the Fund initiated some 60 loan projects totalling $870 million in 48 developing countries. In addition, the Fund provided $21 million in technical assistance grants, bringing total commitments for the three-year period to $891 million. The following table provides a breakdown of IFAD loan projects by region:

As of the end of FY 1981, member governments had not been able to reach final agreement on contributions to replenish the Fund's resources. In 1981, therefore, only 14 new projects totalling $151 million could be approved, together with about $20 million in technical assistance grants. Each of these projects can be fully funded from IFAD's original resources plus accrued interest earnings from the cash contributions which were made by the majority of the donor members.

Loan Commitments 1978-1980

Region	1978	1979	1980	(US $ millions) 1978-1980 No. of loans	Total commitments	Per-cent
Africa	15.8	122.2	160.9	24	298.9	34.3
Asia & Far East	82.5	204.8	149.7	23	437.0	50.3
Latin America	19.3	45.1	69.9	13	134.3	15.4
Total	117.6	372.1	380.5	60	870.2	100.0

Without replenishment, IFAD could not initiate any further projects. In order to avoid a complete hiatus in the Fund's operations, the Executive Board did, however, agree at its September meeting to review and give conditional approval to new projects pending the outcome of replenishment negotiations.

IV.B.3. THE ORGANIZATION OF AMERICAN STATES

Until the early sixties the Organization of American States (OAS) functioned almost exclusively as a framework and forum to promote hemispheric solidarity in security (Rio Treaty) and political affairs, e.g., peacekeeping. Under US initiative, the OAS began a new thrust to support regional development through cooperation between countries and sub-regions. OAS technical assistance programs have since become an important source of multilateral technical assistance to OAS member countries.

In two decades, the OAS has perfected a highly effective infrastructure including specialized personnel, Inter-American Centers for specialized training, a reservoir of experienced technical advisers from the hemisphere, a data bank comprising the results of earlier studies and research on development and extensive experience in planning and administering technical assistance. This capability has become specially attuned to the regional needs and conditions and consequently is highly effective.

The OAS concentrates on developing human and institutional resources to strengthen public and private infrastructure dedicated to development. To date the OAS has trained approximately 78,000 individuals, some 23,000 since 1970. Many of these OAS trainees now occupy key positions in public and private institutions engaged in various aspects of development. Others staff the Inter-American Centers set up for research, training, and extension services in such fields as land and water use, public administration, agricultural research, etc.

Other multilateral and bilateral donor agencies have come to recognize the technical capability of the OAS. Much of the current UNDP staff in Latin America received its training under OAS auspices; UNDP and UNEP rely increasingly on OAS as executing agent for activities in this hemisphere. In their respective fields of endeavor, OAS, UNDP, and UNEP have worked out a mutually complementary relationship with OAS mustering indigenous talents and UNDP and UNEP concentrating primarily on providing sectoral expertise and specialties that cannot be found within the region. OAS is the prime mover in regional river basin economic development schemes which sometimes extend across several national frontiers; these projects have recently given increased emphasis to nutrition, education, and other social needs of the poor segments of the population located in these basins. The Upper Paraguay River Basin (contributions: OAS -- $535,000; UNDP -- $1,509,000; and Brazil -- $10,000,000)

and the Pilcamayo River Basin (OAS -- $75,000; UNDP -- $1,350,000; and $1,000,000 each from Bolivia, Paraguay, and Argentina) projects are illustrative of OAS efforts in this area. Similar projects, but with UNEP participation, include the Bermejo River Basin and the Peruvian Selva Central.

The OAS mobilizes the entire Inter-American system behind its technical assistance projects. OAS feasibility studies and project development work have led to follow-up funding by the Inter-American Development Bank as well as other international financial institutions. The total spinoff has been estimated at approximately $6 billion in the past decade. OAS projects draw on technical and other resources of the Inter-American Institute of Agricultural Sciences and the Pan American Health Organization for an integral approach to specific technical assistance goals. Coordination among the three organizations is greatly enhanced by the common language, common educational background of their staffs, and existence of mutually accepted criteria for division of labor.

In April 1981 the eighth meeting of the Inter-American Conference of Ministers of Agriculture was held in Chile. The Conference is a specialized body which, in accordance with the OAS Charter, deals with specific technical matters in agriculture. The Ministers made recommendations aimed at greater coordination among all international organizations active in agriculture, in the areas of research, rural development, animal and plant health, and technical and financial cooperation in agricultural marketing. Also of priority was considered the promotion of sound policy to stimulate investment, develop appropriate technologies, foster conservation and deal with environmental issues. The Ministers expressed concern about rural poverty, insuring food supplies and reserves, and developing alternative sources of energy from agricultural products. Their general consensus was for stimulating agriculture through agri-business promotion and the elimination of barriers on agricultural trade.

OAS expenditure for development purposes in 1981 amounted to $50.6 million, towards which the United States paid $28.1 million in voluntary and assessed contributions. The other member states contributed the major portion of the remainder; non-member countries, including Canada, Spain, and Germany, contributed $5 million. Although the US share was initially set at two-thirds of total funding, this share has been gradually declining as more developed members of the area, e.g., Brazil, Argentina, Mexico, and Venezuela make greater contributions. This trend towards fairer burden sharing has strengthened the common development efforts of member coun-

tries. Approximately 58 percent of expenditures go to technical assistance and support activities, with the remainder allocated to training, research, studies, and dissemination.

Chapter IV.C.

UNITED STATES BILATERAL ECONOMIC ASSISTANCE

IV.C.1. AGENCY FOR INTERNATIONAL DEVELOPMENT

Allocation of US Bilateral Assistance

Functional Allocation

US bilateral assistance is financed through several major budget categories administered by AID:

-- Development Assistance (DA) is channeled through government-to-government programs and private voluntary organizations (PVOs);

-- Economic Support Fund (ESF) is administered by AID jointly with the Department of State;

-- PL 480 food aid is administered by AID jointly with the Department of Agriculture, and the Department of State;

-- Housing Guaranty (HG) program channels non-appropriated funds from the US private capital market at close to market rates of interest into improved housing for mostly low income inhabitants of cooperating countries.

The amounts obligated under these budget categories in FY 1980, FY 1981 and FY 1982 are shown in Table 1.

Table 1
($ millions)

	FY 1980 Actual	FY 1981 Actual	FY 1982 Appropriated
Development Assistance	1621	1710	1806
of which:			
Functional accounts plus Sahel	(1239)	(1309)	(1389)
Economic Support Fund (ESF)	2158	2199	2576
Subtotal: AID	3779	3909	4382
PL 480 Food Aid (Titles I,II,III)	1505	1620	1478
Total appropriated funds	5284	5529	5860
Housing Guaranty (HG) Program a/	175	135	165

a/ US Government guaranties rather than expenditures of appropriated funds.

During FY 1981, US interests in a particular region or country, due to the country being a source of important raw materials, the location of substantial US private investment, or the scene of actual or potential destabilizing conflict, have been given greater importance as criteria for the allocation to countries of all forms of US assistance, including development assistance. Other US foreign policy considerations for country allocation of Development Assistance include: the character of its overall relations with the United States; its internal situation with regard to human rights; and the extent of its overt (or covert) efforts to acquire a nuclear weapons capability.

Additional criteria for allocation of Development Assistance funds by country are:

-- a recipient country's need, as measured by per capita income and population;

-- a country's economic progress; and

-- its government's commitment to policies and programs that promote equitable growth.

The first two are fairly readily measurable and objective criteria. The question of commitment is a more qualitative matter which takes the economic and social policies of a country's government into account (see Chapter II.E.); its concern with growth and equity and the provision of services to the economically or geographically disadvantaged; and the honesty and efficiency of its economic management.

The criteria for the country allocation of the Economic Support Fund (ESF) moneys are related to political and security consideration: financial assistance is offered on the basis of US security interests, in an effort to maintain or achieve the political and economic stability of governments favorable to (or at least not hostile to) the United States. ESF resources help stem balance of payments crises of countries whose stability is important to the United States: Jamaica, El Salvador, Zimbabwe, Turkey. The largest ESF country allocations are made to Egypt and Israel in carrying out the US commitment to the effort to achieve peace in the Middle East initiated by the Camp David agreements. (See the next section for a fuller discussion of ESF.)

As shown in Table 2, development assistance is channeled primarily toward the poorer countries since a number of higher income developing countries have been graduated from AID's assistance rolls altogether (e.g. Brazil, Colombia, Korea, Taiwan, Nigeria. In FY 1981, almost 90 percent of all country program development assistance (plus Sahel) went to IDA-

Table 2

DISTRIBUTION OF FUNCTIONAL AND SAHEL DEVELOPMENT ASSISTANCE
BY PER CAPITA GNP OF RECIPIENT COUNTRIES

(millions of US $)

COUNTRY GROUP (Per Capita GNP in 1979 $)[a/]	FY 1979 ACTUAL		FY 1980 ACTUAL		FY 1981 ESTIMATED	
	Amount	Percent	Amount	Percent	Amount	Percent
I: Less than $371	356.3	45	381.1	47	409.3	50
II: $371 - $730	321.9	41	347.6	43	328.4	39
III: $731 - $1,510	93.3	12	67.3	8	87.7	11
IV: Greater than $1,510	15.7	2	13.6	2	6.7	1
TOTAL COUNTRY PROGRAMS	787.2	100	809.7	100	832.1	100
NON-COUNTRY PROGRAMS[b/]	435.0		430.1		457.5	
GRAND TOTAL	1,222.2		1,239.8		1,289.6	

a/ Group I corresponds approximately to the "low-income countries" as defined by the World Bank, and Groups I and II combined to the "IDA-eligible" countries; Groups III and IV roughly correspond to the DAC definition of "middle-income" and "newly-industrializing" countries, respectively.

b/ Non-country programs consist of inter-regional, regional and sub-regional programs.

eligible countries, with a per capita income lower than $730 in 1979 dollars. The poorer countries also receive expecially favorable terms of aid. Countries on the UN list of "least developed" countries (for example, Mali and Niger among the Sahel countries, Bangladesh, Sudan) receive grants. Other developing countries receive a mixture of grants and loans, but with a longer loan repayment period for the countries at the lower end of the income scale. Under present legislation, the relation between a country's per capita income and the maturity of AID Development Assistance loans to it is as follows:

Per capita income (1978 $)	Maturity of loans (years)
less than 588	40
589-962	25
more than 962	20

PL 480 food aid is allocated on the basis of the need of recipient developing countries for imported food beyond their capacity to finance such imports on commercial terms. PL 480-financed imports, therefore, have impact on the balance of payments of recipient countries. Consequently, the US allocation decision concerning PL 480 also takes into account the general economic situation and the economic policy environment of potential recipients.

The Housing Guaranty program is currently directed mostly but not exclusively toward countries that are also receiving Development Assistance. It is one of AID's programs with long and continuous experience in dealing with the private sector in developing countries. It is described later in this section.

Regional Allocation of Development Assistance

The regional allocation of development assistance (functional accounts plus Sahel Development Program only), ESF, and PL 480 resulting from these overlapping criteria is shown in Table 3 for FY 1980 and FY 1981. Of Development Assistance directly allocated by country, Asia received the largest share, with Africa (including the Sahel Development Program) close behind, Latin America and the Caribbean further behind, and the Near East making only a small showing. The Near East, however, absorbed 85 percent of ESF in FY 1981, with the bulk going to Egypt ($750 million) and Israel ($785 million). Of the PL 480 total, Asia accounted for 30 percent and the Near East for 27 percent.

Table 3

U.S. Bilateral Assistance by Region, FY 1980 and 1981

Budget Account and Region	$ million FY 1980	$ million FY 1981	percent FY 1980	percent FY 1981
A. Development Assistance (functional accounts plus Sahel):				
Africa (Incl. Sahel Program)	267	300	21.5	22.9
Asia	390	391	31.5	29.9
Latin America & Caribbean	256	232	20.7	17.7
Near East	33	61	2.7	4.7
Inter-regional	293	325	23.6	24.8
Total	1239	1309	100.0	100.0
B. Economic Support Fund:				
Africa	133	163	6.1	7.4
Asia	22	32	1.0	1.5
Latin America & Caribbean	15	143	0.7	6.5
Near East	1988	1860	92.1	84.6
Inter-regional	-	1	-	-
Total	2158	2199	100.0	100.0
C. PL 480:				
Africa	293	215	18.5	16.1
Asia	537	407	33.9	30.0
Latin America & Caribbean	153	157	9.6	11.8
Near East	364	364	23.0	27.3
Inter-regional a/	238	190	15.0	14.3
Total b/	1585	1333	100.0	100.0
D. Housing Guaranty Program c/				
Africa (incl. Sahel Program)	62.0	22.5	35.5	16.7
Asia	-	45.0	-	33.3
Latin America & Caribbean	67.5	50.5	38.7	37.4
Near East	45.0	17.0	25.8	12.6
Total	174.5	135.0	100.0	100.0

a/ Includes Europe, World Food Program, emergency reserve, stock adjustment for Title I, and ocean transportation for Title II.

b/ Before adjustments for: (a) 3.5 percent prepayment on commodities by recipient countries under Title I; (b) prior year obligations financed during current year and current year obligations financed in succeeding year.

c/ Guarantees only: not appropriated funds.

Sectoral Allocation of Development Assistance

The Development Assistance legislation is divided into functional accounts which establish the sectoral priorities of the program. As discussed in Chapter III.A., the main focus of Development Assistance is on food and agriculture. This is reflected in the weight of the agriculture, rural development and nutrition functional account, which absorbed 38 percent of the total funding of Development Assistance in FY 1981 (see Table 4). The population and health accounts absorbed 19 percent of total Development Assistance, the education and human resources functional account 6 percent. (Programs in the other functional accounts also include education components, however.) Energy and science and technology are programs of growing importance but for which funding through 1981 was still relatively small.

Selected Major Developments in 1981

Another fundamental new emphasis of the aid program (also discussed at some length earlier - see III.A.1.) is greater reliance on the role of the private sector in development. To give greater institutional strength to this emphasis, AID created in 1981 a Bureau for Private Enterprise, with the twin responsibility to facilitate the participation of the US private sector in the development process, and to promote the expansion of indigenous private sector development activities in developing countries.

Through its small technical support staff, the Bureau is intended to provide support to AID missions which design or implement private sector development projects, manage a limited number of centrally funded private sector projects, bring together US and indigenous business firms to discuss joint ventures or other business arrangements, and help strengthen the coordinated response of the Department of Commerce, the Export Import Bank, the Overseas Private Investment Corporation (OPIC), the Trade and Development Program (TDP), and other organizations to the private sector initiatives of the Administration. The Bureau, cooperating with AID's four regional bureaus and its field missions, has identified several "target" countries on which to concentrate efforts to stimulate the flow of US capital into profitable and developmentally sound investment opportunities. (A major activity within the Bureau is the Housing Guaranty Program described later in this section.)

As discussed in section III.A.1. AID, in cooperation with the Department of State, intends to place greater emphasis on the use of science and technology in its development program of the near future. To implement this new policy, AID has created in 1981 the Bureau for Science and Technology. The new Bureau has assumed responsibility for scientific and technological

Table 4

US Bilateral Assistance: Development Assistance by Functional Account, Economic Support Fund (ESF), and PL 480, FY 1980 and FY 1981

Functional Account	$ million FY 1980 actual	$ million FY 1981 actual	percent FY 1980 actual	percent FY 1981 actual
Agriculture, rural development, nutrition	630.8	652.6	38.9	38.1
Population Planning	185.0	189.9	11.4	11.1
Health	129.9	143.3	8.0	8.4
Education, human resources development	97.8	102.7	6.1	6.0
Energy, PVOs, selected development activities, science and technology	119.8	124.8	7.4	7.3
Subtotal A: Functional accounts	1163.3	1213.3	71.8	70.9
Sahel Development Program	76.5	95.6	4.7	5.6
Subtotal B: Functional accounts plus Sahel	1239.8	1308.9	76.5	76.5
Other a/	380.7	401.6	23.5	23.5
Subtotal: Development Assistance	1620.5	1710.5	100.0	100.0
Development Assistance	1620.5	1710.5	30.7	30.9
Economic Support Fund (ESF)	2158.1	2199.3	40.8	39.8
Total AID	3778.6	3909.8	71.5	60.7
PL 480, Titles I,II,III	1505.3	1619.6	28.5	29.3
Total appropriated funds	5283.9	5529.4	100.0	100.0

a/ American schools and hospitals abroad; International Disaster Assistance; operating expenses; Foreign Service Retirement Fund.

capabilities in AID to plan and implement Agency programs in the field and in Washington. The Bureau's program will emphasize the transfer of technology to developing countries, the development of scientific capacity in those countries, and improving science and technology expertise within AID. Most projects of the Science and Technology Bureau have a multi-disciplinary character, important to ensuring that they will be relevant to development needs and objectives. The preponderant sector is food and nutrition, accounting for about half of AID's science and technology activity.

Early in FY 1981, the Office of the Science Advisor was established within AID. Supported by a small staff and in close coordination with the Senior Assistant Administrator of the Science and Technology Bureau, the Science Advisor provides advice to the Administrator of AID on all aspects of the role of science and technology in US development programs. During FY 1981, the Science Advisor also was responsible for developing recommendations to use $12 million appropriated by Congress for a new Program of Scientific and Technological Cooperation whose purpose is to support innovative scientific research and enhance developing country research capacity. Of this amount, $8 million was committed to cover the first two-year costs of a new five year grant with the National Academy of Sciences. This grant will assist AID in identifying emerging technologies which appear most promising for application to development problems and will enable the Academy to manage a research program with developing country institutions in those areas. The balance of funds was committed to 20 small grants for innovative scientific research and for strengthening research capacity in developing countries.

A problem of increasing concern to AID and to other donors is that of recurrent costs in project implementation. Unless such costs are kept within the budgetary resources of developing countries, services and projects established with funding from AID and other donor agencies will languish without continued external assistance. To help insure that development projects will be sustainable by the recipient

country, the Science and Technology Bureau has launched a project in Local Revenue Administration. This project seeks to increase the capacity of local governments to generate revenue to meet recurrent costs of activities, to improve administrative efficiency, and to design projects to minimize recurrent costs. Three major activities were begun in 1981:

-- In Peru, a two-year effort is underway to strengthen the capacity of municipalities to plan for and finance development activities.

-- In Upper Volta, a team is examining recurrent cost problems in USAID projects and Government of Upper Volta activities, including the needs for locally provided services and the capacity of local authorities to meet these needs. The team will also consider opportunities for collectively providing and financing services through user charges, voluntary associations, and other non-tax mechanisms within the local area, as well as look at methods of restricting ongoing and proposed activities to reduce recurrent costs.

-- In Bangladesh a team from the Local Revenue Project initiated a three-year activity under a USAID road maintenance project (Zilla Roads Project) to determine alternative funding mechanisms for providing roads and general government services. They will also explore methods for improving the efficiency of the local government sector. These activities should provide guidance in helping developing country governments finance more of their own development activities.

AID Programs and Emphases

In addition to the major emphases and sectoral priorities discussed in Chapter III.A., the AID program continues to emphasize certain major considerations of great importance to the process of development.

Women in Development

AID's policy on Women in Development (WID) is derived from Congressional mandates beginning with the 1973 Percy Amendment to the Foreign Assistance Act which recognized women's roles in "economic production, family support and the overall development process." It directed that aid should be administered "so as to give particular attention to those programs, projects and activities which tend to integrate women into national economies of developing countries." In 1978, legislation defined WID more specifically and designated an amount of aid funds to be used "primarily to support activities which will increase the economic productivity and income earning capacity of women."

Increasingly, Congressional concern has been focused on the issue of how the WID program can be institutionalized within the Agency. A 1980 Report to Congress (widely distributed in 1981), described the recent projects and activities of the Agency in this area, including activities relating to the 1980 UN Mid-Decade Conference on Women in Copenhagen, the Women-in-Development goals set by that Conference, and the recommendations for AID actions to meet those goals.

AID Policy. The concept of WID continued in 1981 to be a major element in the Agency's overall development strategy and will continue to be so for many years ahead. The central premise of these activities is that women are crucial to the success of development efforts, and special or new approaches may be required to ensure their full participatiion. The Office of Women in Development will continue to play a central policy and project coordinating role, concentrating on activities which:

-- improve understanding and information on the roles of women in developing countries;

-- collect and disseminate this information;

-- work collaboratively with AID missions and offices, other donors, private voluntary organizations (PVO's) and contractors engaged in development projects to monitor, evaluate and document on-going efforts and their impact on women;

-- formulate policy recommendations for improving women's opportunities;

-- provide technical advice on project identification and design; and

-- identify resources outside and inside the Agency and in host countries to assist in the enhancement of projects designed to benefit women as well as men.

Major Activities in 1981. During 1981 the WID Office continued to provide technical assistance to AID missions in the field, including specific WID activities initiated at the request of an AID mission:

-- in Morocco - a site evaluation of the mission's four major projects on women in development;

-- in Kenya - a field assessment of the WID program and recommendations as to the potential role of indigenous women's organizations in development projects;

-- in the Dominican Republic - a general discussion held with the AID Mission as to WID program, and site visits.

Other activities undertaken in 1981 by the WID Office include:

-- A major research project funded by the WID Office will examine the specific needs of girls in developing countries in both urban and rural areas, and offer policy recommendations so that development programs can better address the needs of this frequently overlooked group.

-- Since male migration to urban areas has left women with increased agricultural responsibilities, AID is giving major attention to women in agriculture, rural development, and resettlement projects. An AID rural development project in Jamaica includes a "women's component" which consists of special training programs for agricultural extension teams and assistance with vegetable cultivation on family plots.

-- Projects incorporating women's components in Bolivia, Panama, Paraguay, Egypt and the Philippines are improving women's productivity in livestock production and crop cultivation.

The WID Office also increased its support of WID activities at Title XII universities and expanded WID programs at regional university consortiums in the midwest, southeast and southwest. A new consortium, the Northeast Council for Women in Development located at Rutgers University, was created and funded by the WID Office in 1981 to join the northeastern universities together for purposes of providing training, research and technical assistance on WID matters. These activities have also established the basis for a cooperative effort between the WID Office and the Board for International Food and Agriculture Development to integrate women into research projects, develop a research agenda, and utilize women in development expertise in the Title XII contracting process.

Related WID Activities. The continuing WID Data Project at the Bureau of the Census is providing AID with country data disaggregated by sex, age and rural/urban status. This should be of assistance in formulating country strategy statements and projects as well as in stimulating new research outside of AID.

During 1981 the WID Resource Center continued its collection and distribution of materials. In all, over 46,000 individual documents were disseminated to AID missions and others, including the 1980 Report to Congress and numerous current research studies and reports.

International Initiatives. The WID Office has taken the lead in bringing the OECD donor agencies together to discuss policies and concerns relating to women in development. Discussion topics have ranged from improvement of communications between donor representatives and developing-country women's organizations to integration of women's components into major development projects. A Donor Document Exchange has been established, case studies are being collected, and a newsletter is being issued on WID topics of mutual interest.

A WID briefing at the FAO headquarters in Rome in 1981 revealed that FAO now has a better understanding of the relation of women to food production, agricultural development and land use. WID takes some credit for this heightened awareness, having in the past funded the distribution of research papers on the role of women and agriculture.

Major international conferences in 1981 which specifically took note of the part played by women included the United Nations Conference on New and Renewable Sources of Energy held in Nairobi, and a UN Conference on Refugees and Migration held in Geneva.

Evaluation

The AID evaluation system is designed to meet two basic Agency needs for evaluative information: Management needs information during the course of project or program implementation, and planners need predictive information concerning the types of projects and programs that succeed or fail, and the factors that explain their performance.

To provide management with the information it needs during the implementation of a project or program, AID has a decentralized evaluation system. Designed and installed in the early 1970's, it now covers all types of Agency projects in all overseas Missions as well as in Washington. Evaluation reports are submitted to Washington; these reports are then abstracted and entered into AID's automated project data base, which in turn makes them available to program and project designers.

In the mid-1970's AID recognized the need for more summative evaluations that define the impact of AID projects and examine the degree to which they are sustained after AID assistance is terminated. In 1978, the Office of Evaluation was established within the Bureau for Program and Policy Coordination. Beginning in 1979, the Agency instituted a program of "impact evaluations", conducted by AID professionals who have no prior connection with the projects they evaluate, but whose knowledge of the Agency and of economic development makes them uniquely capable of assessing both the impact and the reasons why projects succeed or fail. It was hoped that such an approach would make it more likely for the findings of evaluations to be absorbed by the Agency through both its formal and informal channels of communication. This appears to have been the case: there is a clear correlation between staff involvement in the evaluation process and the propensity to utilize evaluation findings.

Forty-five evaluations have now been completed in the impact evaluation program, covering AID projects in ten sectors: roads, rural electrification, potable water, irrigation, health services, education, area development,

agricultural research, small scale enterprises, and housing investment guarantees. Work has begun this year in two new areas: agricultural production and PL 480 Title I. Twenty-five of the completed evaluations in this series have been published in AID'S Impact Evaluation Series, widely distributed to the US Congress, AID Missions, AID Washington offices and to other donors and developing countries, as well as the academic community.

Evaluation work has now been completed on several sectors, including Range Management and Pastoralism (1979), Rural Roads (1980), and Rural Electrification (1981). Work is expected to be completed in early 1982 in Community Water Supply, Elementary and Non-Formal Education and Agricultural Research and Irrigation.

Evaluation programs are effective only if they result in positive changes. Findings and recommendations of AID's impact evaluations have met a high rate of acceptance within the Agency, as in the Sine-Saloum Health Project in Senegal, the Lam Nam Oon irrigation project in Thailand, and the West African Entente Fund Enterprise project. Beyond the Agency, AID's impact evaluations are being used by host country planners and managers to make decisions about when and whether to expand their own programs, as in the examples of Sudan's Rahad area development scheme, Thailand's community water system and Colombia's labor-intensive road program. Most important, perhaps, is that nearly 200 AID officers (in addition to other US and host country personnel) have had the opportunity to analyze the long-term development impact of AID projects, and, through that process, learn valuable lessons which they apply in their own areas.

Capital Saving Technology

In July 1981, AID sent to Congress a lengthy "Progress Report on Capital Saving Technology" describing in detail the Agency's involvement in and intentions regarding its capital saving technology program. For FY 1981, around 170 development assistance plus Sahel projects, accounting for over $200 million, were identified as capital-saving technology projects, just under 20% of the DA plus Sahel accounts.

Capital-saving technology projects are found in all of AID's priority sectors. The definition emphasizes low investment costs per workplace and the involvement of the local community; labor intensive infrastructure construction techniques; and the provision of low cost health, family planning, education and other services.

The new Administration's emphasis on the private sector has stimulated Agency interest in the productive use of capital-saving technologies by small non-farm enterprises. Design,

adaptation, and dissemination of tools and equipment (e.g., water wheels, portable threshers, on-farm grain storage bins) and the creation of suitable management technologies for small farmers remain central interests.

There are a number of notable projects in the related fields of energy and environment (disseminating the Lorena stove and various social forestry projects are examples) as well as in health and family planning (e.g. providing affordable services to the rural poor). A number of education and training projects which emphasize appropriate skills (e.g. vocational training) also address concerns important to AID's efforts to promote the adoption of capital saving technologies in developing countries.

Environmental Protection, Natural Resources Management and Forestry

AID's long-term development policies on natural resources management, forestry, and environmental protection continue to focus on:

-- assisting developing countries build the institutional capacity and scientific infrastructure required for identifying, assessing and dealing with their critical environmental and natural resources problems;

-- providing assistance to developing country governments for programs addressing natural resources management problems;

-- ensuring the environmental soundness of AID assistance programs and projects; and

-- promoting environmentally-sound development projects funded by multilateral and other bilateral development assistance funding organizations.

The nature and urgency of a wide range of environmental protection and natural resources management problems that profoundly influence the success of development efforts have been defined and widely publicized.

Often noted are the following essential facts:

-- The earth's capacity to support its people with food, fuel, fiber and other necessities of life is being seriously reduced by the enormous amount of topsoil lost by erosion every year due to deforestation and poor land management.

-- Millions of people in developing countries are destroying the resources necessary for their own future economic survival, by stripping the land of trees and shrubs for

fuel and by burning dung and crop residues badly needed to regenerate croplands. (See section III.A.3.)

Table 5
Funding for Projects or Project Components
Forestry, Environment and Natural Resources
(in thousands of current dollars)

	FY 78 Actual	FY 79 Actual	FY 80 Actual	FY 81 Estimate	FY 82 Request
All Bureau Total					
Institution Building	620	10,319	13,412	17,581	19,389
Information/Education	250	3,840	3,016	5,185	7,354
Conservation/Land Management	10,435	39,015	61,523	60,477	54,722
Vegetative Cover: Fuelwood	900	4,300	11,301	8,550	37,609
Other (including Forestry	890	13,929	20,402	16,046	33,926
Totals	13,095	71,403	109,654	107,839	153,000

Forestry Initiatives

AID's attention to the problems and challenges of tropical deforestation and natural resource degradation is steadily increasing, since forest management is intimately linked with the basic economic and cultural needs of the poorest segments of developing countries' populations.

-- Accelerating deforestation, up to 20 million hectares a year, is causing increased flooding, depleted ground-water supplies, siltation of reservoirs, reduction of hydropower supplies and irrigation water, and soil erosion. Extinction of plant and animal species at an unprecedented rate is resulting in the irrevocable loss of biological genetic diversity necessary for improvement of cultivated plants, domesticated animals and as a major source of new medicines.

Environment/Natural Resources Programs

AID's assistance in forestry, environment and natural resources is increasing, as shown by Table 5 on the four principal environmentally related areas.

AID's centrally funded program in forestry concentrates almost entirely on providing technical support to overseas Missions and training for natural resource planners, managers and technicians in developing countries. Individual bureaus and missions concentrate on activities in education and training, institution building, technology transfer, baseline data collection, range and water management, reforestation and fuelwood projects.

In the last year the Agency has:

-- reorganized and strengthened its ability to support an expanded forestry initiative by establishing an Office of Forestry and Natural Resources;

-- disseminated the understanding of how the problems of forest and natural resource use relate to the wider range of development problems; and

-- obtained greater expertise through new arrangements with the Forest Service, the Peace Corps, and the Department of the Interior, as well as with voluntary agencies, universities and regional organizations.

Private Voluntary Organizations

In 1981, AID continued its active support for and collaboration with private voluntary organizations (PVOs). In addition to encouraging the active role of several of the larger PVOs in the distribution of PL 480 Title II food commodities, the Agency committed approximately $200 million in grants and contracts to PVOs and continued major support to several family planning organizations, labor institutes and long-time special groups such as the International Executive Service Corps and the Asia Foundation. The Agency also supported numerous field activities of some seventy groups whose programs coincide with AID's overall priorities. Although many PVOs have particular technical specialities in fields such as blindness prevention, non-formal education, and small enterprise development, AID continues to look to PVOs primarily as a resource to complement government-to-government assistance through their non-governmental character and associations. The continued ability of these organizations to mobilize private funds and other resources from the American public also remains an important motivation behind AID's support for them.

The new directions in AID entail, among other things, greater stress on the role of private voluntary organizations which are indigenous or national to a specific developing country. Such institutions can play a major role in the development of their own countries. AID will put greater stress on direct support to such organizations, including institution-strengthening support; it will also expect US

organizations to place greater emphasis on strengthening the capacity and capability of counterpart indigenous or national private voluntary organizations.

The Agency expects to continue its active support for those private voluntary programs which promise effective development results and which leverage financial and technical resources from the American private sector.

Housing Guaranty Program

The Housing Guaranty program was developed in the early 1960s as part of the US Foreign Assistance Program to respond to the enormous and rapidly mounting worldwide shortage of adequate shelter, particularly in urban areas of developing countries. The program is AID's principal instrument for helping developing nations address this problem. It is a unique activity in which funds from the US private sector provide long-term financing for low-income shelter and urban upgrading programs in developing countries. The US Government underwrites these transactions through a full guaranty that compensates US lenders for losses. Maximum interest rates to lenders are established by AID and reflect the current cost of money in the US mortgage market. AID charges a fee for its guaranty to cover operating expenses and to provide a reserve against claim losses. As a result, the program is virtually self-sufficient.

The objectives of the Housing Guaranty Program are:

-- to assist developing countries in the development and implementation of projects designed to demonstrate the feasibility and desirability of realistic, affordable, unsubsidized shelter within the financial ability of the people earning less than a median income in a given developing country;

-- to assist developing countries in the creation, development and strengthening of the housing and financing institutions;

-- to assist in the formulation, articulation and implementation of housing and urban development policies and programs to meet the needs of the poor;

-- to develop and strengthen the institutional and management capabilities of developing countries in responding to shelter and community services needs of the poor majority of its people;

-- to encourage use of capital saving technologies, labor intensive methods and community participation to provide shelter and community facilities utilizing resources from the Housing Guaranty program.

The Housing Guaranty Program finances the following kinds of shelter solutions for families with below median incomes:

-- slum and squatter settlement upgrading, including provision of potable water, sewage disposal systems, electricity, roads, and drainage, to be complemented by home improvement and land tenure loans to slum dwellers;

-- sites and services, including preparation of vacant land for productive shelter use through lot division and installation of water lines, sewage disposal systems, roads and drainage. This is followed by self-help home construction by low income buyers of the lots. This type of program may include training programs and building materials loans for self-help builders and small scale contractors;

-- core housing, involving basically a sites and services approach with the addition of a rudimentary housing shell (typically including a bathroom and a small multi-purpose living area) on each lot designed to be improved and expanded by the owner. Building materials loans may be provided;

-- low cost housing units for sale or rental; and

-- community facilities and services (schools, health clinics, markets job skill training centers, etc.) in support of shelter projects are also financed by the Housing Guaranty Program.

Each project is designed to assist the participating institutions to define and clarify national housing policies, and to strengthen their capacity to plan, finance, implement, and service housing projects for the poor. A non-subsidized, full cost recovery approach is emphasized.

The Housing Guaranty program is administered by AID's Office of Housing in the Bureau of Private Enterprise, which also provides technical assistance and services in a broad range of shelter-related areas to many developing nations.

AID plans in the short-run to maintain the Housing Guaranty program levels authorized during the past several years. Projects will continue to provide low cost shelter and related urban services to low income families primarily in urban areas of developing countries and to provide housing policy advice to governments of developing countries.

By the end of FY 1982, the Housing Guaranty program portfolio is projected to reach a level of approximately $1.7 billion outstanding. Unprecedentedly high interest rates during 1981 have somewhat slackened demand for Housing Guaranty

program resources from the anticipated levels but it is expected that, as interest rates begin to stabilize, the strong demand for the program will reassert itself. Over the longer term, AID expects to expand its activities in the shelter sector by extending the Housing Guaranty program to additional countries, and by expanding technical assistance for institution building and for helping countries prepare medium- to long-term shelter and urban development plans.

Board for International Food and Agricultural Development (BIFAD)

Title XII of the Foreign Assistance Act directs AID to make more extensive use of US land grant, sea grant and other qualified colleges and universities to carry out foreign assistance programs. The interest of developing countries in Title XII projects, as reflected in AID Mission requests, has grown continuously; and in FY 1982, it is expected that Title XII programs will account for about $400 million of Development Assistance activities in agriculture, rural development and nutrition.

In addition, the legislation directs that increasing world food production be fostered through a combination of: strengthening the capabilities of US universities to assist in increasing agricultural production in developing countries; institution-building programs for development of national and regional agricultural research and extension capacities in developing countries which need assistance; support of the international agricultural research centers; contract research, involving both university and non-university resources; and newly authorized program grants for food and nutrition research.

In 1975 Congress created the Board for International Food and Agricultural Development (BIFAD) and subordinate committees (a Joint Research Committee and a Joint Committee on Agricultural Development) to advise AID officials and participate in the formulation of agricultural development policy, the design of projects and the use of the US agricultural universities in AID programs. Mutual understanding between AID and the universities continues to improve, and a collaborative style in project design and implementation has been developed. In addition, US Title XII universities contribute substantially from their own non-federal resources in support of AID programs.

In 1981 BIFAD, with its Joint Committees and staff, helped shape AID's Title XII programs through:

-- advice on policy, planning, and budgeting;

-- review of Mission requests for Title XII programs and advice on selection of universities for implementation;

-- updating and automating a "Registry of Institutional Resources" to match needs for expertise identified by Missions with university talent available for meeting those needs;

-- developing "Collaborative Research Support Programs" to benefit both LDCs and US agriculture, adding to projects under way on small ruminant animals, sorghum and millet, beans and cowpeas, through implementation of work on soils management, nutrition, and aquaculture;

-- organizing regional seminars for the purpose of informing the university community on the dimensions of the world hunger problem and the opportunities for addressing it through participation in Title XII programs;

-- assisting US agricultural universities to strengthen their capabilities for participating in AID programs overseas, resulting in grants to four more universities, for a new total of 54 universities under a matching formula (universities bear at least half of total costs) and nine (non-matching) grants to minority institutions;

-- contributing to US participation in the second five-year review by the Consultative Group for International Agricultural Research of the programs of the internatioal agricultural research centers;

-- developing a program for cooperation between the international centers and US institutions;

-- identifying problems in AID-university relationships, and recommending new organizational techniques for addressing them;

-- sponsoring studies of: AID experience with university strengthening programs; the use of consortia and alternative contractual forms; and incentives and disincentives for university involvement in AID programs; and

-- exploring innovative ways for providing direct technical support to AID missions (initially in Costa Rica and the Dominican Republic), and for promoting careers in AID and the universities for agricultural professionals.

Selected Major Changes in Agency Organizational Management

The new management of AID has embarked on a more decentralized management approach. The Agency is delegating increased project authorization, contract approval and other

authority to the Assistant Administrators and from them to the Mission Directors in the field.

As part of the overall effort to improve the management of the Agency, the following management actions are either already underway or will commence later in FY 1982:

-- Implementation - Priority management emphasis is being placed on implementation of the many AID projects in the field. Due to reduced funding and staffing the Agency cannot expand its activities but will primarily have to effectively implement those activities already begun but often not fully funded.

-- Contractor Performance - Increased attention will be paid to contractor performance to assure that the Agency gets the most for its contract dollar. We are most aware of the President's directive to stop waste and fraud.

-- Personnel Performance - AID new management is placing emphasis on sustaining the high performance of its staff and assuring that the new Civil Service Merit Pay System, Senior Executive Service and the new Foreign Service Personnel Systems are implemented as effectively as possible and that the Agency fairly rewards top performance from its employees.

-- Systems Improvement - The Agency is undertaking a review of its data processing, word processing, accounting, telephone and other essential office operations systems to determine how to make them more efficient and save staff time.

IV.C.2. ECONOMIC SUPPORT FUND

The Economic Support Fund is a flexible assistance tool to promote the economic or political stability of countries in which the United States has strong security and foreign policy interests.

Although administered by AID and the State Department in generally the same manner as Development Assistance, ESF resources tend to be used to address a broader range of problems. They can be used to provide immediate balance of payments support (assistance through Commodity Import Programs or cash grants to finance general imports rather than specific projects), to finance infrastructure and other capital projects necessary for long-term economic development, or to support smaller projects that more directly address the basic human needs of the poor.

The programming of Economic Support Funds is often prompted by political or security consideration but, as required by Congress, funds are directed toward basic human needs and development goals to the maximum extent possible. Even balance-of-payments support can have a powerful, if indirect, effect on the welfare of the poor. Countries forced to direct large percentages of their domestic expenditures to security concerns often lack the resources to address vital domestic economic concerns. Imports of raw materials, manufacturing and agricultural inputs, and other essential needs can help to sustain the broad level of economic activity and growth and the political stability on which much employment throughout these economies depends. In the provision of ESF there must be an effort to assure that it be consistent with developmental goals whenever possible, even though the assistance may have been motivated by security and political considerations.

Selected Major Developments in 1981

For FY 1981, $2.198 billion was obligated under the Economic Support Fund. The bulk of those funds were provided in the Middle East to support this country's continuing efforts to further the peace process. This included a cash transfer of $764 million to Israel to address inflation and balance-of-payments problems. It also included $829 million of both project and commodity assistance for Egypt to encourage long-term development activities to take place while at the same time permitting large-scale import programs necessary to maintain high growth rates and allow the Egyptian people to experience tangible benefits from the peace process.

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Other important recipients in FY 1981 included Turkey ($200 million), struggling to overcome serious economic problems; the nations of Southern Africa ($73.5 million) where ESF is used to facilitate the peaceful transition to majority rule; the Sudan ($50 million) to assist in the serious economic crisis facing the country; the Philippines ($30 million); and several Latin American nations (in particular Jamaica, El Salvador and Nicaragua). Liberia also received $32 million in FY 1981 to help in its balance-of-payments crisis, and in overall development efforts.

Many of the same themes are expected to continue in FY 1982, particularly emphasis upon Israel and Egypt, Turkey, several African and Latin American and Caribbean nations and Pakistan.

IV.C.3. PUBLIC LAW 480 FOOD AID

Under the Public Law 480 (PL 480) program, the United States provides over 60 percent of total food aid received by developing countries. In addition to combating hunger and malnutrition, the program is designed to encourage economic development and support US foreign policy goals, as well as expand the market for US agricultural exports. The Department of Agriculture and the Agency for International Development share primary responsibility for administering the program. PL-480 resources are used in both bilateral and multilateral programs. Bilateral programs include the following:

-- Title I provides for long-term, low interest loans to friendly developing countries to help meet chronic or unexpected food shortages, on condition that the countries themselves undertake self-help measures to improve the efficiency of agricultural production, marketing, and distribution.

-- Title II includes the making of grants, principally to governments, for emergency and disaster needs, including the feeding of refugees.

-- Title II also provides for the donation of commodities to US voluntary agencies that sponsor feeding programs targeted at the needy, particularly malnourished children, and small scale "food for work" development programs. Recipient countries make substantial contributions to these programs, including the financing of internal transportation, storage, and distribution.

-- Title III (discussed in greater detail below) provides for commitments of funds and forgiveness of Title I loans to low-income developing countries, under certain conditions.

The multilateral program to which PL 480 contributes is the World Food Program (WFP), established with US encouragement by the United Nations and the Food and Agriculture Organization (FAO) in 1972. Initially, the United States contributed 50 percent of WFP's resources. For calendar years 1981 and 1982, the United States has pledged $220 million worth of food and transportation costs (financed under Title II) toward WFP's target of $1 billion.

Background

PL 480 was enacted in 1954, primarily as a means for disposing of US agricultural surpluses. In the early 1960s, PL

480-financed shipments comprised over 23 percent of the value of total US agricultural exports. This has now dwindled to less than 4 percent. In 1966, the legislation was revised to shift the emphasis from surplus disposal to assisting developing countries to improve their own agricultural production. PL 480 commodity requirements are taken into consideration in planning domestic US farm programs. In general, commodities are not available for shipment under PL 480 if these shipments would reduce the amount needed for US domestic requirements, adequate carryover of stocks, and anticipated commercial exports. However, some part of the supply may be made available to meet urgent humanitarian needs, and the Food Security Wheat Reserve insures that four million metric tons of wheat are available for short supply situations. Specific provisions of the current legislation include:

-- A requirement that at least 75 percent of food aid provided under Title I be allocated initially to countries whose per capita income is at or below the eligibility level of the International Development Association (IDA) -- $680 in 1979 prices.

-- Authorization under Title III for multiyear supply agreements of up to five years with "IDA eligible" countries prepared to undertake specific actions to address the constraints to equitable development, particularly in the food and agriculture sector. PL 480 commodities or local currency sales proceeds used for agreed development purposes may be applied against the country's repayment obligation to the United States -- i.e., the United States may forgive the loan.

-- Special incentives may be offered under the Title III program to the least developed countries. These include US financing of ocean freight and, in the case of landlocked countries, delivery to points of entry.

-- Authorization under Section 206 for using the proceeds from sales of Title II commodities (other than in famine or other urgent or extra-ordinary relief circumstances) for (a) alleviating the causes of the need for the assistance, or (b) increasing the availability and the effectiveness of distribution of food provided under Title II to the neediest individuals in recipient countries.

-- A minimum annual tonnage requirement for food donations under Title II of 1.6 million tons of grain equivalent for FY 1978-80 and 1.7 million tons of grain equivalent for FY 1982 and thereafter.

-- A requirement for a determination that adequate storage is available in recipient countries and that the distribution

of PL 480 commodities will not result in a substantial disincentive or interfere with domestic production or marketing.

Major Developments in 1981

In FY 1981, PL 480 commodities and ocean transportation costs totaled in value approximately $1.6 billion, which financed shipment of 5.7 million tons of food (including the grain equivalent of cereal based processed food) -- slightly less food than in 1980. Of this total, grants totaling $768 million were made to US voluntary agencies, the WFP, and directly to poor countries to help meet emergency and disaster needs including feeding of refugees. Loan commitments and transportation costs totaling $880.2 million financed the shipment of over 3.9 million tons of food (see table below). Over 85 percent of the total of food aid value was allocated to IDA-eligible countries with a per capita income of $680 or less; $92.5 million of the loans may be forgiven if the recipient countries carry out the specific development commitments included in Title III agreements.

PL 480 Commitments -- FY 1981

	Title II		Title I/III		Total	
	Million tons a/	$Millions	Million tons a/	$Millions	Million tons a/	$Millions
Commodities of which:	1,803.1	536.9	3,862.0	793.5	5,665.1	1,330.4
Subject to loan forgiveness	(-)	(-)	(423.4)	(92.5)	(423.4)	(92.5)
Ocean Freight	xx	231.3	xx	86.7 b/	xx	318.0
Total	1,803.1	768.2	3,862.0	880.2	5,665.1	1,648.4

a/ Including the grain equivalent of cereal based processed food.

b/ For the Title I/III programs, ocean transportation costs were financed by recipient countries except that the United States absorbed the cost of the differential, if any, resulting from the requirement that 50 percent of the cargo be shipped on US flag vessels. For FY 1981, these commitments approximated $86.7 million.

Major emergency assistance to avert starvation in Kampuchea, for refugees streaming into Somalia and Pakistan, and for drought victims in Africa continued in FY 1981. Refugee needs have increased to tragic proportions, and US food assistance for refugees is now being provided to the following countries: Angola, Cameroon, Costa Rica, Djbouti, El Salvador, Honduras, Sudan, Zaire, and Zimbabwe. The quantity of food donated to refugee programs has more than doubled over the last several years.

The trend toward increasing food aid to Africa, which suffers the most from lagging food production, continued in 1981. During the last five years the value of PL 480 food shipments to Africa has more than tripled. During the same period, shipments to Latin America and the Caribbean almost doubled.

Food Aid Convention

The International Food Aid Convention currently in effect came into force on July 1, 1980. Its objective is to achieve, through a joint effort by the international community, the World Food Conference target of at least 10 million tons of cereal food aid annually to developing countries. Under the 1980 Food Aid Convention, commitments total about 7.6 million tons compared to 4.2 million tons previously. The US commitment, which is fulfilled through PL 480 shipments, is 4.47 million tons, an increase of 136 percent over the previous US pledge of 1.89 million tons. The Food Aid Committee may recommend that members voluntarily increase their contributions to cover emergency needs if a substantial number of low-income countries suffer a sharp shortfall in production.

Prospects for the Near Term

The total dollar budget for the 1982 PL 480 budget has been reduced as part of the Administration's overall budget policies. At the same time, excellent crops and substantial commodity reserves have reduced somewhat the average cost of commodities. The continuation of reduced commodity prices will partially cushion the impact of a reduced budget in 1982.

A series of impact evaluations of Title I programs will be undertaken starting in FY 1982, to examine how PL 480 can be more effectively integrated with other developmental programs. Using the results of these studies, AID intends to set up a permanent evaluation system for Title I agreements. A comprehensive evaluation of the Title III program, particularly its role in achieving policy reform and other developmental

objectives, is scheduled for FY 1983. With regard to Title II, much has already been learned through evaluation to show that Title II food can be an effective development resource when planned in conjunction with other resources. Over the next two years, AID will be refining evaluation conclusions through a combination of process and impact evaluations and a few special studies. At the same time, efforts will be made to apply evaluation findings to improving the programming process for Title II.

Finally, emphasis is also being placed currently on integrating PL 480 programs more fully into the overall AID Mission development strategies in each country. The overall objective of integration is to assure that all PL 480 programs serve to increase the developmental effectiveness of economic assistance activities in general, irrespective of their funding source.

Chapter IV.D.

OVERSEAS PRIVATE INVESTMENT CORPORATION

The major theme of the Reagan Administration, elaborated throughout this volume, is that the economic development of developing countries must follow a strategy of sound policies that foster economic efficiency and encourage individual initiative and private enterprise. The Overseas Private Investment Corporation (OPIC), a component of IDCA, will necessarily play a more significant role in the Reagan Administration's strategy, by facilitating US investment in those developing countries which welcome private sector activity and with which the United States has generally good relations. At the same time, OPIC will continue to promote the well-being of the US economy.

An inflow of capital has beneficial effects on a country's economic growth. OPIC programs are aimed at increasing the total flow of US capital to developing countries, and thus at contributing to aggregate growth in those countries. In addition, the Corporation seeks to heighten the developmental benefits of OPIC-assisted projects by encouraging the greater use of local labor, of other local resources, of development of local energy, and of export orientation. These developmental benefits of OPIC's programs are not accomplished at the expense of US economic interests. On the contrary, the returns from OPIC-assisted foreign investment over the years add up to significantly more than the initial capital outflow, for a positive net effect on the long-term balance of payments.

The Overseas Private Investment Corporation (OPIC) was created by the Foreign Assistance Act of 1969, although the program had existed as part of US foreign assistance activities, since the Marshall Plan days. The 1969 Act provided that OPIC would complement the foreign assistance program by mobilizing and facilitating the participation of private capital and skills in the development process. OPIC has several major programs which help meet these objectives: political risk insurance, financial services, and special programs designed to further promote direct investment overseas.

On October 6, 1981, the Overseas Private Investment Amendment Act of 1981 was signed into law by President Reagan, thus re-authorizing OPIC's operations until September 30, 1985. As a result of the changes the new law makes to OPIC's mandate, OPIC is now in an even better position to provide comprehensive assistance to American businessmen investing overseas. Strong administration support of OPIC's role in encouraging direct private investment in developing countries

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was matched by strong Congressional interest. The new law significantly broadens OPIC's underwriting flexibility. In addition to expanding the OPIC program in 17 of 26 "middle income" nations where operations had previously been restricted, the law expands OPIC's authority to provide coverage against "civil strife," including (with certain qualifications) rioting, certain acts of terrorism and civil disturbances conducted by persons acting in behalf of, or in connection with a political organization.

The OPIC Program

Insurance

Whenever an investor considers a project overseas, he must evaluate the risks posed by future political, economic and social conditions in the country. In light of corporate experiences in Iran, Afghanistan and elsewhere, these types of concerns have become even more pressing. By providing insurance against inconvertibility of currencies, loss due to expropriation, and damage caused by war, revolution or insurrection (and, under the recently-enacted legislation, civil strife), OPIC reduces the probability of catastrophic losses to US investors. Since other governments provide similar services for their investors overseas, OPIC insurance allows US investors to be more competitive with their counterparts from Japan and other developed countries in the growing markets of the developing world.

Financial Services

The OPIC Direct Loan and Loan Guaranty programs complement conventional sources of long-term financing, and help to remove some of the other constraints to US investment in the developing world. For example, because of unfamiliarity with making loans for use in overseas investments, or due to their internal country exposure limits at times some US banks may be hesitant to lend to smaller US investors. Also, US banks sometimes may be unwilling or be unable to accept certain political risks. Or, in the absence of host country branches the cost of negotiating a loan can be prohibitive to some US banks. In situations such as these, the OPIC finance program makes financing available to US investors who otherwise would be unable to invest in developing countries. Furthermore, because these loans generally provide medium to long-term financing, they encourage investors to undertake projects which are more developmental in their effects on the host country.

Special Services

Investment Encouragement Activities. During FY 81 OPIC expanded the range of special services it offers to facilitate investment overseas by American businesses. Services which particularly encourage wider participation in overseas investment by smaller American businesses include investment missions, which bring US investors in touch with local government officials and potential joint venture partners; assistance for feasibility studies and pilot projects; conferences, seminars and other educational programs; and training grants. OPIC also has programs for medium-term debt financing for the establishment or expansion of distributorships overseas; and special assistance to private voluntary organizations and cooperatives which promote the growth of the private sector in developing countries.

Letter of Credit Guaranty Insurance. The OPIC program for letter-of-credit guaranty insurance protects US contractors and exporters against the risk of arbitrary draw downs of the letters of credit they may be required to post as bid, performance or advance payments bonds. The need for this program originated when it became evident that American contractors were losing their already small share of the Middle Eastern construction market to competing Asian and European firms. Although American firms were generally acknowledged to be competitive on an experience and performance basis, they were losing their market share because of their difficulty in posting the often required guaranties. Not only do letters of credit draw heavily upon the contractor's bank credit resources, but more importantly the possibility of an arbitrary drawing down of the posted guaranty creates the possibility of severe financial loss or even bankruptcy for the contractor. OPIC letter-of-credit guaranty insurance protects against this risk. This protection, originally designed for use by US contractors, has been expanded to also serve US exporters and suppliers.

Energy and Minerals Program. As discussed at length in Section III.A.3., one of the severest constraints to development is the high cost of energy. Many developing countries, however, potentially possess large undiscovered oil reserves. The OPIC energy program which provides political risk insurance and financial services for US investors in the exploration, development and production stages of energy projects tries to address this situation.

The United States imports over 90 percent of its needs of certain strategic minerals, many of which come from developing countries. The OPIC minerals program helps secure US access to diverse sources of these materials, by providing political risk insurance and financial sources to US investors for the production abroad and export to the United States of strategic

minerals not available domestically. OPIC minerals projects also benefit the host country, as increased exports provide them with needed foreign exchange, and improve their infrastructure.

Highlights of Fiscal 1981

FY 1981 was a year of extraordinary achievement for OPIC in several areas:

-- OPIC issued an all-time record $1.48 billion worth of insurance by the end of FY 1981, compared to $1.1 billion in FY 80.

-- OPIC provided loan guaranties or financing to 21 new projects, compared to 17 in FY 80, which facilitated a total of $450 million in new investment in the developing world.

-- Bilateral agreements allowing OPIC to operate in the People's Republic of China and Lebanon were signed.

-- OPIC made great strides in the minerals and energy sectors; five projects totaling $736 million were undertaken in these two crucial areas.

-- OPIC's support of the administration's major policy initiative in the Caribbean led to a total of 23 insurance projects and financial assistance and other services for 10 US investors. Furthermore, actions taken in FY 81 made it possible to start off the new fiscal year with investment missions to Jamaica and Haiti, bringing many high-ranking US businessmen to each of those countries to discuss investment opportunities for the coming year.

During FY 1981, OPIC assisted 95 US investors in 115 projects located in 37 countries around the world. Sixty-one of these projects were in manufacturing, 19 were in banking and finance, 12 were in service industries, 10 were in the construction sector and 5 were in the minerals and energy area. There were also 8 projects in the agribusiness sector.

In terms of geographic coverage, FY 81 showed a major expansion of OPIC's program. The largest portion of the OPIC program took place in Latin America and the Caribbean Basin, where a total of 34 projects received some form of OPIC assistance in FY 81. Thirty-three projects were in the Middle East, 30 in East Asia, 6 in South Asia, and 12 in Africa.

Effects on Developing Countries

OPIC projects bring many benefits to the host countries. Local employment generated by OPIC-assisted investments (in their fifth year of operation) is expected to be 20,709 people, including 3,567 managerial and professional positions. Initial local expenditures for these projects are $925 million, with an additional $92 million being spent in other developing countries. Once in operation, these projects are expected to generate annually an estimated $657 million in export earnings, a net balance of payments gain of $1.2 billion, and $348 million in taxes and duties.

OPIC has an important role in assisting the lower-income developing countries. In FY 81 OPIC assisted 46 investment projects located in 16 IDA-eligible countries, with a total value of approximately $852 million.

Examples include:

-- An OPIC-assisted pharmaceutical plant in Indonesia will improve public health by supplying high quality ethambutol, a drug used in the treatment of tuberculosis.

-- An OPIC project in Sudan will better the transportation system by providing improved cargo handling, customs clearance and specialized cargo transportation at Port Sudan and internally, particularly to serve the petroleum industry, a key industry in the government's development strategy.

-- An OPIC-sponsored new factory will improve nutrition in Egypt by producing enough bread and pasta products to help feed approximately one million people.

OPIC-assisted projects bring valuable benefits to middle income developing countries as well, by generating foreign exchange and improving food supply, storage and distribution, problems which may endure despite these countries' relatively advanced development in certain sectors.

In FY 81 OPIC assisted in 69 projects in 21 middle income developing countries in areas such as energy development, dam building, food processing, and banking and financial services. The total dollar amount of the projects is expected to be approximately $3.7 billion. They are expected to generate $832 million worth of foreign exchange, and create 11,652 new positions. For example, an OPIC-assisted fish-processing plant in Peru will help reduce widespread malnutrition which persists in the country, create 125 new positions, and make a new US FDA approved fish protein available for export and local consumption.

Effects on the US Economy

OPIC supported projects will also provide significant benefits to the US balance of payments and employment. During their first five years of operation, these projects are expected to generate 39,800 man-years of employment for US workers, approximately $1.6 billion in US exports from initial procurement, ongoing procurement of more than $900 million worth of US materials and equipment during the first five years. Net financial flows to the United States are expected to be approximately $182 million. Overall, the total positive impact of these projects on the US current account is anticipated to be $2.7 billion in the first five years of their operations.

Prospects for the Near Term

In FY 81, OPIC made significant gains in helping a wide variety of US investors increase their investments in developing countries. In particular, many of OPIC's programs assisted smaller US businesses in their investments overseas. For example, 70 percent of all OPIC financing was committed to small businesses, and insurance for small businesses made up nearly one-third of all regular projects.

Modifications to OPIC's statutory charter clearly improved the Corporation's ability to meet the changing international investment environment. For instance, the removal of restrictions on OPIC operations in many middle income countries makes it possible for OPIC to provide assistance where there is no concessional aid program. The Corporation is now engaged in a major effort to expand existing programs while establishing new ones such as:

-- An Outreach Program to help reach US businesses who are potential OPIC users.

-- A Marketing Volunteers Program which will make experienced American marketing executives available to potential US investors in developing countries.

-- A Target Sector Program which will identify particular sectors in developing countries which can support profitable US investments and still help meet developmental needs.

In addition, OPIC is intent on expanding and improving the grant programs carried out under its Investment Encouragement authority, both to demonstrate to businessmen the special advantages of investing in the developing countries as well as

to assist these countries to prepare a more hospitable environment for foreign investment. OPIC's feasibility study and research and training programs will be particularly useful in this regard.

OPIC has a unique role to play in helping the United States meet the needs of developing nations. OPIC's responsibility is particularly highlighted in these times of budgetary constraints on other forms of foreign assistance. Drawing on the expertise of an experienced staff, OPIC is in an excellent position to provide services to the US investor in the developing world even better than those which have been available in the past.

OPIC anticipates that FY 82 will witness a substantial increase in the number and dollar value of insurance contracts issued and greater involvement of US investors in more OPIC-sponsored investment missions, feasibility studies, pilot projects and training grants around the world.

Chapter IV.E.

THE TRADE AND DEVELOPMENT PROGRAM

The US Trade and Development Program (TDP), a component of IDCA, has the three-fold objective of facilitating:

-- the economic development of developing countries;

-- the sale of US technology, goods and services associated with major development projects; and

-- US access to natural resources.

The programs administered by TDP are authorized by Sections 607(a) and 661 of the Foreign Assistance Act of 1961, as amended. Under Section 607(a), TDP serves as the coordinating and authorizing agency for the provision of technology, technical services and training by US Government agencies on a fully reimbursable basis. Under Section 661, TDP sponsors a wide range of studies and planning services, from project formulation to feasibility studies.

TDP focuses on priority development projects in developing countries which coincide with US interests and which are most likely to lead to US private sales of goods and services.

TDP planning services are primarily provided in middle and upper-income countries and in AID "graduate" developing countries. The most compelling development needs of such countries are in the energy, agriculture, and infrastructure sectors. TDP's strategy for speeding development in participating countries is to identify the highest priority sectors for development on a country-by-country basis and to facilitate their access to US technology and management skills, especially those available in the private sector.

By providing planning services for the transfer of US technological goods and services to developing countries, TDP helps improve the position of developing countries as trading partners of the United States, as well as the competitive position of US firms as participants and suppliers in major overseas development projects.

Examples of projects in progress at the end of 1981 are given below:

-- Brazil Southern Cone Alternate Energy Network: A study of a coal gasification system and a liquified natural gas pipeline, terminal and regasification plant.

-- Ao-Phai Coal-Fired Power Plant: A pre-design engineering study for a combined coal handling/storage facility plant in Thailand.

-- Hydropower Protocols: A series of studies of dam-related projects for the Peoples Republic of China.

-- Panama Coal Conversion: A study of a proposed coal transshipment facility in Panama to open Asian markets to US coal.

-- Jamaica Coal Conversion: A study to convert Jamaica's energy production system from petroleum to coal.

-- Mineral Transport Study: A study to identify means of relieving ship congestion in four ports through which Peru ships minerals.

-- Food Processing: A study of plans to build two large food processing and canning facilities in Burma.

-- Roads Management: A study of road construction, maintenance and related personnel training and equipment requirements in Gabon.

TDP expenditures of $5.4 million in FY 1981, although relatively small, have facilitated an estimated $1 billion of follow on US exports as a result of Section 661 activities. Similarly, over $1 billion of reimbursement to government agencies and related exports are expected to result from Section 607(a) activities from the period 1979 to 1981.

Chapter IV.F.

PEACE CORPS

The Peace Corps' mission is to promote world peace and friendship by making American volunteers available to:

-- help the people of interested countries and areas in meeting their needs for trained manpower, particularly in meeting the basic needs of those living in the poorest areas; and,

-- help promote a better understanding of Americans among the peoples served and a better understanding of other peoples among Americans.

Peace Corps programs are consistent with and support overall US development policy. Peace Corps provides a continuing focus within the development community on grass-roots development issues and strategies, emphasizing human development for self-reliance.

During 1981, the person-to-person, grass-roots approach, which has been Peace Corps' hallmark for 20 years, provided increasing opportunities for collaboration with other agencies, especially AID but also a variety of multilateral, private and voluntary organizations.

Continuing progress was made in designing and implementing new projects in the fields of forestry, fisheries, renewable energy, health, water, food production, nutrition, and education. Ongoing projects in these areas were strengthened by focusing volunteer assignments on building local capabilities, mobilizing local resources, using capital-saving appropriate technologies, and developing self-sustaining, productive capacities, particularly in food and energy.

US Contributions

In 1981 approximately 5,000 American Peace Corps volunteers participated in the development efforts of 62 developing countries. They worked in a variety of projects developed jointly between Peace Corps overseas staff and host country agencies, responding both to the expressed needs and interests of the host government and to the basic human needs of the poor in each country.

Twenty-seven hundred men and women entered Peace Corps training for two-year assignments in Africa, Latin America, the

Caribbean, the Near East, Asia, and the Pacific during 1981. As part of an effort to assure that all volunteers will possess not only the appropriate service motivation but also the technical skills requisite to their assignments, Peace Corps expanded the use both of the Centers for Assessment and Training and of specially designed, competency-based technical skill training programs held in the United States prior to volunteer departure for the in-country phase of training.

The Peace Corps integrates into all its activities consideration of the problems seen and felt by women in developing countries, tries to assess their needs and the impact of those problems on the family and individuals, and has the goal of assuring equitable representation of women in program leadership positions.

The Peace Corps funding level for FY 1981 was just under $106 million. In addition, host countries continued to make nearly $6 million in cash and in-kind contributions to Peace Corps projects, demonstrating their commitment to the program.

The single greatest area of expenditure continued to be the direct support and the training of volunteers overseas. Costs of overseas staff support and the recruiting of volunteers were the two other major expenditures. Three-quarters of all Peace Corps staff were stationed overseas in the host countries where volunteers serve; two-thirds of the overseas staff were host country nationals.

During 1981 the Peace Corps had programs in the following countries:

Africa: Benin, Botswana, Cameroon, Central African Republic, Gabon, Gambia, Ghana, Ivory Coast, Kenya, Lesotho, Liberia, Malawi, Mali, Mauritania, Niger, Rwanda, Senegal, Seychelles Islands, Sierra Leone, Swaziland, Tanzania, Togo, Upper Volta, and Zaire.

Latin America and the Caribbean: Belize, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Eastern Caribbean (Antigua, Barbados, Dominica, Grenada, Montserrat, St. Kitts/Nevis, St. Lucia, St. Vincent), Ecuador, Guatemala, Honduras, Jamaica, and Paraguay.

North Africa, the Near East, Asia, and the Pacific: Fiji, Kiribati, Korea, Malaysia, Micronesia, Morocco, Nepal, Oman, Papua New Guinea, Philippines, Solomon Islands, Thailand, Tonga, Tunisia, Tuvalu, Western Samoa, and North Yemen.

During the year negotiations were completed to add the Cook Islands and Vanuatu. Volunteers will enter both new countries

in 1982. The program in Brazil was phased out by mutual agreement. The following programs were terminated: Colombia, El Salvador, Ivory Coast, Nicaragua, South Korea.

Peace Corps volunteers served in a wide variety of individual assignments and projects, each tailored to address special local needs. While summary statistics cannot adequately reflect the range and diversity of activities, they do provide an overview of the types of development programs in which volunteers are involved.

During 1981, approximately:

-- 24 percent of volunteers were working in health-related projects: nutrition and public health education, sanitation, potable water supplies, immunization; and maternal and child health care.

-- 23 percent of volunteers were working in food production projects: animal husbandry; crop production; marine and fresh-water fisheries; irrigation; and horticulture. Peace Corps volunteers provide the largest single international development force working in fresh water fish culture in the world.

-- 36 percent of volunteers were working in education projects; vocational and teacher training; classroom teaching; literacy; and non-formal education. Peace Corps involvement in formal education has declined somewhat as emphasis has shifted in some countries from traditional classroom teaching projects to a range of non-formal education activities.

-- 13 percent of volunteers were working in economic development and income generation projects: credit union, cooperative, and small business development; and marketing and cottage industries.

-- 4 percent of volunteers were working in energy and conservation projects: forestry and other renewable resource development (the use of pedal and solar power, more efficient cooking and heating technologies, etc.); soil and wildlife conservation and other areas of environmental protection; and a variety of other projects including integrated rural development, housing, youth work, and community services. The number of volunteers in forestry and energy projects is growing rapidly, supported by extensive Peace Corps collaboration with AID in these critical areas.

In addition to the volunteers supported directly through its bilateral programs, Peace Corps supported the service of

nearly 140 US and developing-country nationals in multilateral volunteer programs, such as the United Nations Volunteer Program, and the Intergovernmental Commission on Migration.

Selected Major Developments in 1981

Special Projects

The Peace Corps has created an office responsible for liaison with the private sector. This office's mandate is to support the administration's policy of encouraging the involvement of American private enterprise with government agencies to generate long-term economic progress in the developing world. In addition, the office will be responsible for stimulating programs and projects which encourage the development of self-reliance in Peace Corps countries.

Twentieth Anniversary Activities

Peace Corps used the twentieth anniversary of the agency to refocus the nation's attention on the very significant contribution the more than 80,000 returning Peace Corps volunteers have made to America. The highlight of the year-long series of activities was the Second National Conference of Former Volunteers and Staff held in June on the campus of Howard University, Washington, D.C. Nearly 2,000 alumni from all over the country assembled for the two day event. Peace Corps Director Loret Ruppe, all of the former Directors, the Agency's most distinguished alumni, and several developing country dignitaries contributed to the success of the conference.

Many additional activities were organized by local former volunteer groups in more than thirty cities around the country to publicize the central theme of the anniversary, the re-dedication to the Agency's "third goal" which is to promote a better understanding of the peoples of the developing countries by the American people.

Core Curriculum

Peace Corps completed the development of a core set of training goals and materials aimed at enhancing volunteer developmental effectiveness throughout the service period, and began their worldwide dissemination. This Core Curriculum integrates skills relating to the role of the volunteer in development, cross-cultural fluency, language and communications, technical and work context, and volunteer physical and emotional well-being. Specific training goals and objectives are addressed at Centers for Assessment and Training in pre-service, and completion-of-service training events.

A major Women in Development training manual - Third World Women, Understanding Their Role in Development - has been developed and is now being used successfully in the training of staff and volunteers.

Refugee Assistance

Established relationships were continued during 1981, permitting the assignment of Peace Corps-sponsored United Nations Volunteers to assist in refugee work of the United Nations High Commission for Refugees. In response to the continuing refugee crisis, the Peace Corps assisted in refugee relief programs in Southeast Asia and Somalia.

Peace Corps-AID Collaboration

Cooperation between the Peace Corps and AID continued to increase, not only at the country but also at the interagency level with the extension of agreements in the energy and forestry sectors (see Section III.A.3.). These arrangements are aimed at developing a set of local level approaches to these critical problems, which can be replicated beyond the scope of the PC-AID agreements. Discussions were also begun on collaborative projects in the fish, water/sanitation, and health sectors.

The joint Peace Corps/AID agreement providing for three months of AID training for Peace Corps Fellows during their year long fellowship was reinstated. Todate five Peace Corps Fellows, now serving overseas, have taken advantage of this collaboration opportunity.

Collaboration With Private Voluntary Organizations

The Peace Corps and private voluntary organizations (PVOs) have a long tradition of collaboration. When Peace Corps was founded, volunteers were fielded directly through PVOs. As the capacity to supervise and support volunteers developed, the Peace Corps assumed responsibility for direct volunteer supervision. At the same time, collaboration with PVOs has continued. Peace Corps Volunteers currently work closely with PVOs in just about every area of development and in almost every country in which the Peace Corps has volunteers.

During the past year, the Peace Corps has received several requests from PVOs who are interested in utilizing Peace Corps Volunteers in their overseas programs in countries where the Peace Corps has no operations. In response to these requests, and in an effort to provide greater opportunities for Americans to serve as Peace Corps Volunteers, alternative methods of assigning volunteers are being pursued. Peace Corps is currently investigating the feasibility of collaboration with a

PVO to assign Peace Corps Volunteers to work under the PVO's supervision in refugee camps. An anticipated 5 to 7 Volunteers will be serving in this mode by early 1982.

Chapter IV.G.

INTER-AMERICAN FOUNDATION

The Inter-American Foundation (IAF) is a public corporation created by Congress in 1969 as an experimental alternative to established assistance programs in Latin America and the Caribbean. Granted authority to conduct its affairs independent of other US foreign policy agencies, the IAF works to explore and promote more equitable, responsive, and participatory approaches to development and foreign assistance in the region. The Foundation's funds come from Congressional appropriations and from the Social Progress Trust Fund of the Inter-American Development Bank.

Under its legislative mandate, the IAF is charged with responsibility for:

-- assisting initiatives of Latin American and Caribbean organizations that provide opportunities for the social and economic development of low-income and otherwise disadvantaged groups;

-- fostering the participation in community and national development of those groups that are usually denied a voice in development decisions and largely excluded from the benefits of programs;

-- encouraging the emergence and growth of democratic institutions in the region;

-- contributing to public understanding and debate about institutions, policies, and programs that shape and constrain economic and social change in Latin America and the Caribbean.

The IAF is governed by a seven-person Board of Directors appointed by the President of the United States. Four members of the Board are drawn from the private sector and three from government. A President appointed by the Board serves as the chief executive officer of the Foundation. The 60 person staff is located at the IAF office in Rosslyn, Virginia, just outside Washington, D.C. Staff members travel regularly to Latin America and the Caribbean to review current projects and new proposals. The Foundation maintains no overseas staff or offices.

The Foundation selects projects for support from the large number of proposals it receives. The IAF responds to initiatives coming from Latin American and Caribbean groups and does not set goals or directions for those who receive its assistance. The Foundation does not have fixed priorities or

guidelines for the allocation of its funding among countries, institutions, or program sectors. Its small size and independence allow the IAF to respond more quickly to proposals than other aid agencies and to support many organizations and ideas that might otherwise not have access to external assistance.

US Participation and Contributions

During the past decade, the Inter-American Foundation made grants totalling more than $135 million for approximately 1,200 projects in 27 nations of Latin America and the Caribbean. IAF grants have varied in size from less than $1,000 to $2.5 million; the average grant has been approximately $120,000. In Fiscal Year 1981, the Foundation approved approximately 300 new and supplemental grants totalling $22 million. The Foundation concentrated its spending on projects that:

-- Strengthen peasant, worker, and community groups so they can better promote the social and economic interests of their members. Particular attention is given to organizations that are participatory and democratic in their operations, are prepared to commit their own resources to the objectives being sought, and are likely to continue to grow and develop beyond the period of IAF assistance.

-- Support the development of institutions that can foster cooperation among peasant, worker, and community groups and provide them with such services as credit, technical assistance, training, and marketing and distribution facilities. Important among these institutions are federations of cooperatives, private development foundations, church and university programs, and agricultural service organizations.

-- Explore new approaches to the problems of deprivation among and discrimination against the particularly disadvantaged: ethnic and racial minorities, the rural landless, poor women, unemployed youth, and Indians. Promising activities are being supported in education, health and nutrition, and job creation.

-- Promote research and analysis at Latin American centers that can document and explain the conditions of poor and disadvantaged groups, assess the implications of alternative government policies and programs on the welfare of these groups, and clarify the issues and choices facing poor and disadvantaged people as they work to improve their situation. The Foundation also maintains a competitive program of fellowship awards for doctoral

and masters degree candidates at US universities to conduct field research in Latin America and the Caribbean.

Among the grants made in 1981 were the following:

-- $45,000 to an association of Aymara Indian peasants in Peru, among the poorest people in South America, to expand its network of consumer stores into villages lacking access to basic commodities at reasonable prices;

-- $473,000 to an association of 30 peasant and community organizations in Colombia to distribute food more directly from rural producers to urban consumers;

-- $18,000 to itinerant vendors of aluminum pots in Bolivia, to open their own factory to manufacture pots;

-- $15,000 to the Jamaica Society for the Blind, to create a revolving loan fund for blind members starting their own small enterprises;

-- $279,000 to the Trade Union Education Institute in Jamaica to train women for leadership positions in trade unions; and

-- $366,000 to the Dominican Development Foundation, founded by Dominican businessmen initially to work in rural development, to make loans of $30 to $3,000 to small businesses and individual enterpreneurs in cities in the Dominican Republic.

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